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China Report

ECONOMIC AFFAIRS

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19 DECEMBER 1986

CHINA REPORT ECONOMIC AFFAIRS

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NATIONAL POLICY AND ISSUES

XUE MUQIAO REVIEWS RESTRUCTURING OF ECONOMIC SYSTEM

Beijing ZHONGGUO JINGJI TIZHI GAIGE [CHINA'S ECONOMIC SYSTEMS REFORM] in Chinese No 3, 23 Mar 86 pp 16-20

[Article by Xue Muqiao [5641 2550 2890]: "The Problems and Achievements of Economic Reform"]

[Text] It has been 7 years since the 3d Plenary Session of the 11th CCP Central Committee launched the restructuring of the economic system. The achievements have been outstanding.

The restructuring began in the rural areas where the economic structure was relatively simple. To fully mobilize the peasants' initiative and tap the production potential of the countryside, we boldly broke out of the traditional mold of the "three-level ownership" of the people's commune, in which the production team was the "basic accounting unit;" adopted the output-related system of contracted responsibility, with the family as the unit; encouraged diversified specialized households; and developed township and town enterprises in a range of fields. In commerce, we abolished the monopoly of supply and marketing cooperatives and replaced it with a variety of state-owned, collective, and individual channels, thus broadening market commodity exchange in order to adapt to the development of commodity production. It can be said that the restructuring of the rural economic system has achieved a basic breakthrough and is now surging ahead in the direction of commercialization, specialization, and the application of science. In the future, the major mission is to plan successfully for all-round economic development, taking into account local conditions, consolidate the leadership of the state-owned sector in the rural economy, and apply indirect regulatory mechanisms to continue to strengthen government planning and management in the rural economy.

The restructuring of the urban economic system was slower to get off the ground because of its complexity. Reform here revolves around enlarging the autonomy of state-owned enterprises and turning them into relatively independent and self-managed commodity producers and operators responsible for their own profits and losses so that they would no longer eat off the big rice pot of the state. Nor would their employees continue to do likewise at their expense. This kind of restructuring is very difficult as it involves reforms

in the planning, monetary, financial, commercial, materials circulation, price control, and wage systems. While we have done a lot of work in the above-mentioned areas, we remain in a transitional stage; reform is still essentially an unfinished business for us. Moreover, reforms in the various systems have yet to be properly coordinated. Consequently, apart from a handful of well-managed enterprises that have carried out trial reforms, most have not effected any basic breakthroughs. By and large collective enterprises in cities and townships, which have now been deregulated, have recorded more rapid growth than the thousands of large and medium-sized state-owned enterprises. The latter constitute the mainstay of the national economy. If they stay in a rigid state, not only will they continue to languish, but their leadership and dominance in the national leadership will also be eroded. That is why the 3d Plenary Session of the 12th CCP Central Committee decided to shift the focus of economic work from adjustment to reform and redirect the orientation of reform from the rural to the urban. The central purpose is to transform these thousands of state-owned enterprises into vital, dynamic economic entities that are really functionally autonomous.

The pace of urban economic reform since the 3d Plenary Session of the 12th CCP Central Committee has indeed quickened, ushering in a new phase bursting with life and vigor. Last year industrial output rose at a rapid rate seldom matched in the world and equally rare in China's history, except for the first 3 years after the PRC was founded and during the 3-year Great Leap Forward (which actually led to a steep decline in agricultural and industrial output) in the late 1950's. Price increases have been on the high side, but people are now living much better. The sharp increase in industrial output was caused by the loss of control on the scale of capital investments (which, in turn, was the result of bank credit getting out of hand) and on wage funds. On the one hand, it created unprecedented prosperity in the national economy. On the other hand, it may undo our successful adjustment effort over the past few years to ease the supply of means of production, increase the availability of consumer goods (an important condition for going ahead with structural reform boldly,) and complicate future structural reform. Since the first quarter of 1985, therefore, the State Council has convened several meetings with provincial governors in a determined effort to reverse this lopsided situation. The effort began to pay off by the third quarter of 1985. Having learned from our experience in 1981 when we applied the brakes on the economy too abruptly, we took a "go slow" approach last year and worked hard to keep credit for the whole year within the limit in the plan. In the next 2 years we will do our best to make sure capital spending does not exceed the 1985 level in order to prevent proportionate relations in the nation economy, to which a basic equilibrium has been restored, from going askew again. Should that happen, we will have no choice but to put ourselves through another round of adjustment.

Recall that since the 3d Plenary Session of the 11th CCP Central Committee, we have consistently demanded that the scale of capital spending be reduced. In 1979, the plan to hold down capital investment was not fully carried out because the projects had already started. In 1980, investments in the plan were brought under control, but extra-budgetary investments financed by enterprise funds and bank loans shot up, due to reforms in the monetary and financial management systems, thus again thwarting the national plan. In the

first quarter of 1981, we moved quickly to slow down the economy; consequently, industrial output took a nose dive and heavy industry actually recorded minus growth. Although we gradually relaxed bank lending during the second quarter, capital investments in 1981 as a whole stayed within the limits in the plan and industrial output rose only marginally faster than the projection (4.5 percent), the lowest in 7 years. We paid a heavy price for reining in a runaway economy: a slowdown in industrial output, particularly in heavy industry. But in return we achieved a crude balance between the supply and demand of the means of production in 1982 and a buyer's market appeared in many lines of consumer goods, thereby creating favorable conditions for future development and the restructuring of the economic system. From 1982 through the third quarter of 1984, the scale of capital construction once more exceeded estimates in the plan and wages and bonuses also climbed rather steeply, but since the gains in industrial and agricultural output were much more substantial than what had been projected, no shortages of means of production developed and the supply of market commodities was ample. We had to sell abroad surpluses of consumer goods most essential in daily living, such as grains and cotton fabrics. That explains why the 3d Plenary Session of the 12th CCP Central Committee concluded that then was the most auspicious moment to accelerate the restructuring of the economic system and decided to quicken the pace of urban economic reform. This decision was timely and entirely correct.

In the fourth quarter of 1984, we began reforming the bank credit and enterprise wage systems by expanding the autonomy of localities and enterprises in making use of bank credit to finance development and in carrying out wage reform. In our inexperience, we failed to strengthen macroeconomic control correspondingly as we went in for microeconomic decentralization. The result was a dual loss of control--on bank lending and wage funds. In the fourth quarter, credit soared 164 percent over a year ago, total wages rose more than 30 percent, and bonuses swelled 100 percent over the same period in 1983, all exceeding by far the growth rate of industrial and agricultural output. The money supply became bloated (partly due to a bumper harvest and the tremendous increase in procurements) while foreign exchange reserves plunged. The CCP Central Committee and the State Council discovered this problem in time and called several provincial governors' meetings to correct the overheating phenomenon in production and projects. However, it takes time to cut back on development projects and wages once raised cannot be readily lowered. In fact, they continued to go up last year because of wage reforms. At the same time, acute shortages of means of production reappeared, accompanied by sharp increases in the free-market prices of such means of production as steel. The supply of consumer goods did not come under much pressure, but because of a rapidly rising purchasing power and excessive commodity price increases, some products which had been selling well declined in quality. Apart from stiffening market control, the basic solution is to curb the excesses of purchasing power expansion (consumption funds). In the next 2 years, we should make the intensification of macroeconomic control the focus of reform and, even as we do so, further deregulate the microeconomy (particularly the thousands of large and medium-sized state-owned enterprises).

Examining new issues from an outdated viewpoint, some comrades argue that we have gone too far in our reform over the past few years, especially last year. They attribute price spirals affecting means of production to free marketing and propose a return to the centralized allocation of means of production. More than 30 years of experience tells us that the basic reason for the gap between the supply and demand of means of production is the overly large scale of capital construction. In the past, when all capital construction was dependent on treasury funding, it might be relatively easy to allocate means of production in a centralized way. (Even then the system was plagued by a host of maladies well known to all.) Now treasury appropriations in the budget account for only one third of capital investments, while local and enterprise funds constitute as much as two thirds of capital investments outside the plan. Should we revive the old system of the centralized allocation of means of production and abolish free marketing, most of the development projects outside the plan and the production of small and medium-sized local enterprises will grind to a halt, causing inestimable losses. Coal was the first to go free marketing and, two years ago, the free-market prices of coal fell slightly because of an increase in coal production outside the plan. Today, the most acute shortage occurs in steel, but since everybody has been stockpiling steel frantically, it is also in steel that we find the worst overstocking problems. Centralized allocation cannot increase the supply of steel. (On the contrary, it may in fact depress the output of small local steel plants.) The only way to ease steel supply and prevent free-market prices from continuing to rise and even induce them to drop somewhat is to set up steel markets extensively to smooth its circulation and attract steel kept in stock back onto the market. Needless to say, the most basic thing to do to bring down the free prices of steel is to reduce the scale of capital building, which we did in 1981. As a result, steel imports fell markedly that year and in 1982, as did the amount of steel in stock. It is only under these conditions that steel prices can stabilize.

In a bold experiment, the government last year took the initiative to lift price control on non-staple foodstuffs and adopted market regulation involving the participation of state-owned enterprises. Many foreign experts have pointed out that the success of economic reform in China will depend on whether we can adjust unreasonable prices. In the reform experience of various Eastern European nations, the most risky part of price reform is deregulating the prices of non-staple foodstuffs. Once prices were deregulated, they shot up 100 to 300 percent, resulting in social repercussions. We tackled this problem quite early, adjusting the prices of non-staple foodstuffs back in 1979, which proved instrumental in cushioning the effects of the present round of price decontrol for non-staple foodstuffs. In 1979 and 1985, the government twice issued cash payments to workers to cover the price increases in non-staple foodstuffs and also raised their wages, thus avoiding a drop in the living standards of the bulk of urban residents because non-staple foodstuffs had gotten more expensive. The result of price decontrol is more supplies of non-staple foodstuffs, which will continue in the next few years. And increased supplies are the most basic guarantee for rising living standards. Owing to price increases affecting non-staple foodstuffs and certain articles of daily use, which occurred due to a vastly expanded purchasing power, the general level of prices may go up more than 10 percent in 1985, a rare occurrence in China. Consequently, complaints

have been widespread. In the opinion of many foreign experts, however, the fact that we succeeded in lifting price control on non-staple foodstuffs is a gratifying achievement.

Apart from price reform, 1985 also saw wage reform, which substantially increased the wages of workers who had had to shoulder progressively heavier responsibilities over the years without corresponding raises in pay, and which replaced the egalitarianism in the wage system with the principle of distribution according to work. Because of the sudden loss of control on wage funds in 1984, we had no choice but to prevent them from overexpanding. Thus we went in for limited reform, as we did with regard to prices, and did not try to completely overhaul the system. Irrationalities in its price and wage systems are the two "cancers" in China's economic system, affecting its healthy growth. Last year we took a gratifying move on both the wage and price fronts that paved the way for further reform in the future. But for the dual loss of control--on bank credit and wage demands--in 1984, which somewhat impeded the progress of wage and price reforms, particularly the price control system, we would have taken wider stride. In the next couple of years, instead of hesitating, we should accelerate microeconomic deregulation by strengthening macroeconomic control.

Over the past few years, we have deregulated not only the rural economy, but also the collective urban economy and a large portion of small state-owned enterprises. However, the thousands of large and medium-sized state-owned enterprises that make up the backbone of the national economy remain problem-ridden. They have noticeably fallen behind the urban collective economy in growth, not to mention the rural collective economy. At present the urban and rural collective economies are developing by leaps and bounds. This is a cause for satisfaction and an important factor for the economic prosperity in cities and countryside. Nevertheless, should the lag of the state-owned economy continue for an extended period of time, it would militate against its consolidating its leadership of the national economy. The solution is not to hem in the collective and individual economies, but to deregulate the state-owned enterprises. Whether it is in funds, machinery, equipment, or technical and managerial personnel, state-owned enterprises are far superior to collective and individual economies. Armed with the necessary autonomy, they will be fully capable of competing with the latter and keeping abreast of them. This will not only result in a much more balanced national economy, but will also consolidate the leadership of the state-owned economy. Its deregulation should therefore be a crucial part of our economic work.

To further expedite the restructuring of the city-based economic system, I believe we need to address the following issues:

First, continue to reform the planning, fiscal, financial, materials, price, and labor wage systems so that they are coordinated with one another and ensure that the decision to expand the autonomy of large and medium-sized state-owned enterprises is successfully implemented. As far as the planning system is concerned, we are now gradually decentralizing whatever planning authority that should be decentralized. At the present time, there has been little coordination with other reforms. Turning to the monetary system, we have taken the second step toward replacing profits with taxes. But since prices have not been totally adjusted, we cannot but continue to rely on an

onerous regulation tax to reduce the unequal distribution of burdens and benefits. Inevitably efficient enterprises will continue to be penalized. Right now state-owned enterprises are heavily taxed, collective enterprises, particularly township and town enterprises, lightly taxed, and the individual economy, essentially untaxed. This is a major reason why thousands of large and medium-sized state-owned enterprises have failed to grow appreciably. In the control of goods and materials, we continue to stress administrative allocation and neglect market exchange. Wide gaps remain between planned allocation prices and free-market prices. No effort has been made to set up on an extensive scale exchange markets for means of production to facilitate their circulation. Some investments and foreign exchange and most allocated materials are still controlled by relevant departments in the central government. Enterprises have been given more autonomy. However, out of fear that they may not be able to get hold of the necessary investments, foreign exchange, and allocated materials, enterprises have not embraced autonomy, preferring instead to continue to "eat from the big rice pot" of the state. Because of the dual loss of control, we were forced to go slow on wage and price reforms, which, in turn, has hampered the effort by the state-run economy to improve the standards of management in accordance with objective economic principles.

Second, in our inexperience, we failed to step up macroeconomic control in a way commensurate with microeconomic vitalization. Following the restructuring of the economic system, two thirds of our fixed assets investments came from bank loans and the funds of localities and enterprises (which, too, must go through banks.) Thus banks have become the most vital tool of macroeconomic control. We have set up a central bank to control the money supply and bank credit as a means of preventing inflation. At a time when the central bank was not yet working perfectly, specialized banks scrambled to make the most loans in the fourth quarter of 1984, most of which went to finance capital construction. In 1984, we began to put the squeeze on credit and many enterprises, caught without circulating funds, found themselves in a beleaguered state, forcing us to apply the brakes on the economy suddenly. While controlling fixed assets investments stringently, we must also ensure normal agricultural and industrial output and normal commodity circulation. The central government has demanded that the scale of capital building in the next 2 years be strictly limited and the growth of consumption funds be appropriately restricted to prevent the recurrence of imbalances in the national economy. This is imperative. We must strive to improve the methods of macroeconomic control.

The 12th National Party Congress put forward the magnificent goal of quadrupling agricultural and industrial output in 20 years, noting that the growth rate should be a little more moderate in the first 10 years to set the stage for a prosperous and strong economy in the next 10 years. Over the past 4 years, we achieved a growth rate of about 8 percent in industrial and agricultural output and over 10 percent in industrial output, significantly higher than the rate (7.2 percent) the quadrupling effort requires. Because of the loss of macroeconomic control, industrial output rose more than 20 percent in the first 3 quarters in 1985. Township and town enterprises along the southeastern coast recorded a growth rate between 30 to 50 percent in 1984 and an even higher rate in 1985. Less developed areas in the west grew

restless and itched to catch up with the east. It should be recognized that the economy cannot stay overheated for long. We should gradually lower the super growth rate to a normal level.

Third, looking even deeper, we should point out the mediocre quality of our economic management cadres, a fact ill-suited to the policy of opening China to the outside and internal economic invigoration. Many localities, departments, and enterprises push themselves to the limit. This is perfectly understandable. But the overall result will be an excess of total demand over total supply. Subjective wishes are not to be realized. Moreover, it will lead to a certain measure of confusion in the economic order. There should be extensive propaganda and education on this point in the days ahead. Leading cadres at many of our large and medium-sized state-owned enterprises were used to eating off the big rice pot and reluctant to take risks and innovate. Now that a batch of young cadres has been installed, enterprises have shown a little more drive. But in their inexperience, some people may act recklessly and blindly. If they fail, they will still look to the government to bail them out. The so-called "assuming responsibility for one's profits and losses" actually means that enterprises assume responsibility for their profits only, not losses. Then there are certain cadres who, autonomy in hand, make no effort to reform internal operations and management or open up foreign markets. Instead, they work hard to take advantage of loopholes in the financial system, pursue personal interests at public expense, and jack up prices at will to damage consumer interests. In the long haul, therefore, the all-round restructuring of the economic system also requires us to devote major efforts to improving the quality of economic cadres at all levels. Certainly this is not something that can be done in 2 or 3 years. But that should not stop us from going ahead. While stepping up cadre selection and training, we must at the same time let them enter the fray of the real world and receive correct guidance from leading organizations.

Since the all-round restructuring of the economic system necessarily faces many difficulties, a handful of comrades have shown skepticism about reform in the past year. Some individuals have even dismissed our reform as a failure. China's present economic situation has also been the subject of many an economic discussion abroad, whose general tone is more optimistic. In early September 1985, the China Economic Restructuring Research Society, the China Academy of Social Sciences, and the World Bank jointly convened an "international seminar on macroeconomic management" on board the cruise ship, "Bashan," at Sanxia along Changjiang. Economists from Western and Eastern European nations were invited to take part. The seminar began positively: Premier Zhao Ziyang met with the experts in person and briefed them frankly about the achievements and problems of economic reform in China. During their week-long discussions, the experts and scholars unanimously praised China's reform achievements and agreed that the economic difficulties it has faced recently are inevitable to a certain extent in the course of reform; just about every country experiences similar problems during extensive reform. They pointed out the ever-present tendency for the economy in socialist nations to overheat and for investment famine to exist at every level in a state-owned economy, a tendency intensified by overly high economic projections. This frequently results in inflationary pressures, material shortages, and unbalanced growth. In handling the present situation, we

should be aware of the basic reasons that cause "overheating" and also note that certain administrative measures, while unavoidable in the short run, should not be allowed to get in the way of solving the problems.

Despite the fact that they came from different nations and systems and have widely divergent experiences, ten scholars, authorities in their own nations and even the world, share a common outlook on some of the economic problems facing China today. This should be regarded as the most notable feature of the seminar. Scholars from Eastern European nations even candidly admitted that the problems they came across in their reform were much more serious than ours, which, however, failed to undermine their resolve. Apart from the U.S., all Western nations encountered serious economic problems, including materials shortages, after the war, to which they also responded with rationing, subsidies, and similar administrative measures, so they had personal experience in the difficulties that arise when such measures are abolished.

Experts from various nations put forward many valuable suggestions regarding macroeconomic management, financial policy, wage control, the control of the money supply and credit, financial market, etc., which should serve as our reference. Chinese scholars in attendance, and perhaps the foreign experts as well, walked away from the seminar with a heightened confidence in economic reform.

The road is bumpy but the future is bright. If we persevere, we will certainly score a triumph of world historical significance. This is our conclusion.

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NATIONAL POLICY AND ISSUES

FURTHER REFORM OF COMMERCE URGED

Beijing JINGJIXUE DONGTAI [TRENDS IN ECONOMICS] in Chinese No 5, 5 May 86
pp 4-5

[Article by Zuo Mu [0146 3668]: "Create the Conditions and Further Reform Commerce"]

[Text] Over the last 2 years, reform of China's commercial system has made significant progress, but there are many difficulties. If some relaxation is allowed in certain areas the possibility of reverting to where we started still exists, but if we can continue to carry out reforms on the existing foundation, then we shall certainly achieve new breakthroughs. I fully endorse the view expressed in a recent conversation by a leading comrade on the State Council who said: "We have every reason to advance on the crest of victory, and we don't have even half a reason to vacillate or retreat."

To pursue commercial reform, we must now focus on solving the following problems:

I. The problem of decontrolling small commercial enterprises. In its Document No 92 of 1984, the State Council stipulated that small, retail commercial units doing independent accounting in Beijing, Tianjin, and Shanghai having annual profits of less than 200,000 yuan in provincial capitals and the city of Chongqing, and those with annual profits under 80,000 yuan in other cities may be converted to state ownership and be operated collectively, paying taxes according to regulations and taking responsibility for profit and loss; or they may be converted directly to collective ownership, or leased to managers and be managed by individuals. In the last few years, wherever this decision has been implemented, the vast majority of enterprises have achieved marked results. The response is universal: since decontrol, small commercial enterprises are staying open longer hours, increasing the variety of goods handled, expanding the scope of their operations, selling more, improving their service, and clearly increasing the amount of taxes paid as well as the incomes of staff and workers. The best results have come from those enterprises leased to commercial staff-and-worker collectives for operation. I did a survey of this in Beijing. According to statistics from 22 small enterprises leased to staff-and-worker collectives for operation in the Chongwen District, in 1985 sales increased by 38 percent

over the previous year, annual profits increased more than 10-fold, and taxes paid increased by 52 percent; for 1985, after leasing, average staff-and-worker income was 1,582 yuan, a 29-percent increase over 1984. In the Xuanwu District in May of 1985, the Nonstaple Foods Co leased three small enterprises; in the second half of the year income from sales increased by 27 percent over the same period in the previous year, with the 1 290-yuan loss suffered in the previous half-year being turned into a profit of 7,468 yuan.

However, progress has been slow in decontrolling small commercial enterprises. According to statistics, as of October 1985 the country had actually decontrolled 64,000 small enterprises, which is 75 percent of the 85,000 targeted for decontrol; progress is very uneven. In Beijing decontrolled small enterprises account for only 13 percent of those to be decontrolled. After the bonus tax is collected from the collective enterprise, there is a tendency to revert back. The main reasons for this are as follows:

1. Leasing costs are too high. There are no standards for leasing costs, which generally include: depreciation on fixed assets, interest on circulating funds, planning funds for staff-and-worker labor insurance, and the lease payment. The costliest is the lease proper. The lessors require that the enterprise pay the lease according to the base profit originally turned over to the state; excess profits revert to the lessee. In reality, since the lessors are no longer responsible for the enterprise's profit and loss, and their funds have already been replenished, how can they require the leased enterprise to pay the lease according to all profits paid in the previous year? Considering the factor of differential land rents, the lease payment may be part of the total profits turned over the previous year, or an average over several years, but generally all of the previous year's profits turned in cannot be used as the base. Except under special circumstances, it is in particular impossible to require that the lease payment exceed the total profits paid in by the enterprise in a previous year or an annual average for several previous years.

2. The policy of keeping profits has not been implemented. A lease is not the same as a contract. The lessor is entitled to profits after taxes. The lease contract also stipulates this, but in fact the leased enterprise's profits after paying taxes and the lease are all invested to expand operations, and nothing is distributed to the lessors. If the operation is a partnership, profits should be distributed first to the lessors, and then resources are pooled and applied to expanding the enterprise's reproduction. If collective leasing is used, then a certain proportion of the funds, according to the provisions, should be invested in expanding reproduction, but it should be clearly stipulated that the lessee has a "right of collective possession" to the newly added funds. Because the policy of keeping profits has not been implemented, the staff-and-worker lessees do not realize that the profits of the leased enterprise belong to them, nor do they know that the policy has changed; they therefore pay close attention to wages and bonuses. After bonus taxes have been levied, they feel there is no longer any hope of a higher income, and so some people demand out of the lease and go back to eating out of the communal rice pot. Enterprises that had been thinking about leasing halt all their plans. There is, therefore, a pressing need to make the distribution policy for leased or collectively run enterprises a reality.

There may be a loophole here, which is that if the leasing staff and workers distribute profits after taxes as consumption funds, the enterprise must pay a wage tax. But if the profits are first treated as production funds and then after a while converted to consumption funds, or are budgeted by the lessors, doesn't this leave a loophole? In fact this sort of arbitrary withdrawal of funds has already occurred, and this is certainly a problem. It would, therefore, seem necessary to consider that the assets already created by leased enterprises and their own circulating funds ought to be counted and monitored. In order to encourage investment and avoid excessive distribution of consumption funds, a separate tax should be levied on production funds withdrawn from the enterprise by the lessors and put to another use. The rate must not be lower than the wage tax.

II. China's large and medium commercial enterprises lack vigor and are inefficient; the main problem is the lack of a suitable separation between government and enterprise. The responsible state agencies have used administrative companies to block the autonomy that should be given to enterprises. For example, according to data on the nonstaple foodstuffs system in a certain district in Beijing, large and medium commercial enterprises currently turn over to an administrative company 80 percent of their profits after taxes and 90 percent of their transformation and renewal funds. The enterprises are far from constituting autonomously operating economic entities taking responsibility for profit and loss.

In addition to certain ideological problems, the causes behind this situation are primarily the absence of objective conditions for reform.

1. Under the current price system, the wide disparity in profit levels among commercial enterprises must be adjusted by the responsible department or by administrative company by regulating the distribution of earnings. In order to proceed with reform, price controls must be further relaxed, and consideration may be given to adding a new type of tax especially for decontrolled enterprises, and using the tax revenue to make adjustments as a replacement for administrative adjustments.

2. Planning, industrial and commercial management, pricing, tax-collecting, and statistical departments are currently incapable of dealing with the plethora of enterprises, and they are forced to use administrative companies as intermediaries. Therefore, during reform the capacity of the above departments for indirect management and regulation should be strengthened as quickly as possible so that they can deal directly with enterprises. Consideration may be given to first transferring the relevant personnel from the responsible departments and administrative companies among the aforementioned departments to work jointly, and then later gradually solving personnel and structural problems.

Of course, separating government and enterprise does not mean that administrative control should be eliminated. Rather, precisely because government and enterprise are separated, commerce is invigorated, and there is even greater need for administrative control over the market. Considering the small scale of commercial enterprises, and their many outlets, large cities may also wish to establish intermediate administrative structures between city and enterprise to serve as a connecting link between the two. But none of

these administrative structures should substitute for the functions of the economic entity; this must be clearly understood.

3. Labor insurance has not been socialized, and many enterprises making small profits are unable to bear the burden of labor insurance expenditures and have strong reservations about accepting responsibility for profit and loss. Therefore close attention must be paid to socializing urban staff-and-worker labor insurance, and such interim measures as "citywide planning" may be implemented.

4. The quality of cadres in many large and medium commercial enterprises is not ideal. An important reason for this is that administratively capable people keep promoting one another and transferring each other over to the administrative companies. For this reason, adjustments and training must be carried out, and large and medium enterprises must be provided with the conditions for normal operations, so that the personnel are well trained and the enterprises are decontrolled.

In addition, an administrative contract responsibility system should be widely established within the enterprises.

III. Recently comrades in theoretical circles and in actual working departments have proposed that as commercial services are developed there is a need to augment services to the secondary levels of commercial enterprises themselves. I believe this view should be given serious consideration. As circulation is invigorated, if we are to emphasize reducing links and encourage industry and commerce to deal with one another directly, then we should also pay attention to exploiting the effect of middlemen; as control and supervision are strengthened, we should broadly develop commercial agents, information and consulting, lawyer arbitration, advertising, insurance, etc. If these "software" services cannot keep up, it will be difficult to invigorate commercial circulation, or if invigoration is achieved, it will be easily muddled.

Portfolio companies must be specifically analyzed and not rejected out of hand. Many cities have established state-run industrial product trading companies which have achieved success and experience, but recently industrial and commercial controls have tended to become more stringent; it is to be hoped that a distinction will be made between what is legal and what is not and companies will be treated accordingly. In short, policies of encouragement and support must be adopted.

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CSO: 4006/61

NATIONAL POLICY AND ISSUES

ECONOMIC LAWS, REFORM SINCE 1979 DISCUSSED

OW262032 Beijing XINHUA in English 1617 GMT 26 Nov 86

[Text] Hong Kong, November 26 (XINHUA)—China's economic laws and regulations have promoted rural economic development, inflow of overseas investment, expansion of the private economic sector and stimulated innovation and creation.

This was said at a seminar on foreign economic and trade laws of China, where Gu Ming, director general of the research center for economic legislation under the State Council, also said: "China has, since 1979, enacted 340 economic laws and statutes covering Sino-foreign joint ventures, foreign-funded businesses, economic contracts, patents, food hygiene, medicine, forestry and grasslands, and they make up 80 percent of the total legislation of the period."

The seminar today was jointly organized by the Hong Kong Chinese General Chamber of Commerce and the China Patent Agency (Hong Kong) Ltd.

"Judiciary, jurisprudential research and education of economic laws have made headway as well," Gu Ming said.

"For example," he said, "courts at all levels have restored, or established economic tribunals, which were banned during the cultural revolution in 1966-1976."

In the first nine months this year, the 3,000 economic tribunals handled 245,470 cases of contract disputes and other economic affairs, six percent more than the total in 1985. More than 200 institutions of higher education are studying or offering courses on economic laws while television and other mass media lending a hand in disseminating legal knowledge nationwide, Gu said.

For the function of economic laws, Gu first noted they have guaranteed the implementation of flexible rural policies China has adopted since 1979. Without regulations and provisions worked out by the State Council, rural reform would hardly have materialized, he added.

Second, since the country published its law on Sino-foreign joint ventures in July 1979, there are more than 7,000 joint ventures, cooperative businesses and enterprises operated with exclusively foreign capital. Foreign investment in 1985 alone exceeded the total in the previous five years, though complaints sounded louder last year.

Third, with principles on individual economy promulgated since 1981, the private sector boasted employment figures of 17 million by the end of 1985, compared to 150,000 in 1978, Gu said.

The patent law, which was held as a product of capitalism and took five years to solve the controversy whether it will do harm or good to socialism, has mobilized the creativity of the Chinese people so markedly that the patent bureau received 18,170 applications in the first year since the law came into effect in April last year. In the world, only 14 countries each receive more than 10,000 applications per year.

He also disclosed that China is drafting laws on Sino-foreign cooperative businesses which account for nearly 60 percent of the enterprises involved with foreign capital, on foreign trade, copyright, insurance, maritime trade, bookkeeping notes and company law while the customs law and bankruptcy law are under discussion for approval.

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CSO: 4020/51

NATIONAL POLICY AND ISSUES

TRANSFERRING TECHNOLOGICAL ACHIEVEMENTS TO PRODUCTION

Beijing GUANGMING RIBAO in Chinese 3 Oct 86 p 2

[Article by Ye Dan [0673 0030], Liu Zhong [0491 0112], Yu Xiaogang [0205 2556 6921], Peng Ying [1756 4481], and Yu Jiwen [5713 2111 2429]: "Bridging the Gap between Research and Production"]

[Text] Editor's note: Under the leadership of the State Science and Technology Commission, the China Science and Technology Promotion and Development Research Center successively conducted three nationwide random surveys revolving around the transfer of technological achievements in five industries--metallurgical, chemical, machine-building, light, and electronic. On the basis of the surveys, it analyzed the general situation in technology transfer at present and has prepared a report. We publish excerpts from the report today in the hope that the transfer of technological achievements to production will be further stimulated.

As the restructuring of the economic and scientific and technological systems steadily became more thoroughgoing, the transfer of technical achievements to production has begun to pay off. The surveys show that since 1984, the ways that scientific and technological work can serve economic growth have become increasingly clear and the transfer rate of the technological achievements of research institutions has been rising year after year. In 1984, the transfer rate (the number of achievements transferred as a percentage of the number of completed scientific and technological projects) averaged 41.4 percent, up 14.4 percent over 1983. The channels of transfer have been diversified, each with its own characteristics. Feedback from enterprises shows that technological achievements are now generally recognized by the public as a commodity. At present, transfer channels such as the technical market, departments in charge, integrated scientific research and production organizations, and middlemen are all playing a variety of roles. After adopting technological achievements, enterprises have experienced markedly better economic results. According to the data, the ratio of the costs of purchasing an achievement to the gain in profits and taxes after the application of the achievement is 1 to 6, while that of the costs of purchasing an achievement to the increase in output value is 1 to 24.

The surveys demonstrate that to further expedite the transfer of technological achievements to production, we must solve these problems:

According to figures from the State Economic Commission, only 15 percent of the nation's large and medium-sized enterprises have been vitalized, while 65 percent have experienced some changes but still lack vigor, and 20 percent remain largely stagnant. The major difficulty facing large and medium-sized enterprises today are an excess of tasks mandated by the command plan, rising production costs due to soaring energy and raw material prices, overly high enterprise regulation taxes, and the low percentage of profits retained, (in most enterprises, the amount retained ranges from 300 to 400 yuan per person and is as low as 100 yuan in a few cases,) which means little money for enterprise self-transformation and self-development.

Of the 100 enterprises surveyed in the five industries, 48 percent cannot produce enough to keep up with demand, 38 percent balance output with demand, and only 11 percent suffer from sluggish sales. This situation enables the vast majority of enterprises to survive and make a profit even without technological innovation.

Chinese enterprises are acutely short of qualified technical personnel. According to the surveys, the number of technical personnel as a percentage of the total number of employees in an enterprises is 4.1 percent in the metallurgical industry, 5 percent in the chemical industry, 6.3 percent in the machine-building industry, 3 percent in light industry, and 8.4 percent in electronics. The number of people directly involved in research and development is even smaller. There are 150,000 scientific and technological personnel at non-independent research institutions nationwide. Assuming that there are 400,000 industrial enterprises above the county level across the nation, this means there is just one technical worker for every three enterprises, and assuming that we have 68 million workers in the nation's industrial and transportation enterprises, only 22 out of every 10,000 workers are technicians. In addition, these non-independent scientific research organizations are usually deficient in research and development tools and backwardly equipped for research.

Traditionally many research institutions in the nation have remained outside the orbit of enterprises, resulting in a divorce between science and technology and the economy, which gives rise to a host of shortcomings. First, research institutions, knowing little about market demand and the state of production technology in enterprises, fail to respond to the needs of economic development flexibly. Second, the fortunes of research institutions are not tied to those of enterprises as they have no common interests. Third, limited by their own research conditions, research organizations often provide defective technology; sometimes production tests are not done or the necessary engineering designs are missing, with the result that the technology is not directly applicable to production. According to the random surveys, 7.74 percent of large enterprises rate the standard of technology currently available from research institutions as "mediocre," 19.6 percent consider it "not high," and only 3 percent regard it as "quite high." The corresponding figures for small and medium-sized enterprises are 59, 28.2, and 12.8 percent, respectively. Also, 75.9 percent of large enterprises and 71.1 percent of

small and medium-sized enterprises express reservations about accepting the technology of the nation's research institutions.

For both economic and technical reasons, enterprises must largely rely on themselves when it comes to technology, despite their small scientific research contingents. Statistically, 63 percent of the technologies used by large enterprises come from their own research, 19.8 percent are developed jointly with research institutions (including institutions of higher education,) while merely 6.4 percent are obtained directly from research institutions (including institutions of higher education,) which is even less than the percentage of imported technology (7.5 percent). Although 75.2 percent of the technological achievements transferred by research institutions are channeled toward small and medium-sized enterprises, as much as 50.7 percent of the technologies used by those enterprises are their own, with scientific research institutions providing just 25.5 percent.

Since enterprises lack qualified technical personnel and research institutions have only a modest ability to develop and modernize industrial technology, inter-enterprises technological diffusion has assumed additional significance. In the surveys, 58 percent of the enterprises express willingness to obtain technology from other concerns in the same line of business. However, this kind of exchange remains fraught with problems, eg., deep-seated departmentalism and localism and, in particular, the lack of specialized and socialized cooperation between enterprises.

In many cases, technology transfer fails because the transferrer and the transferee do not see eye to eye on responsibilities, rights, and interests. A large number of enterprises complain that research institutions are oriented toward "commerce," not production, and do not have a sense of responsibility for sharing risks with enterprises. Endless disputes often arise over the honoring and overseeing of a contract or the ownership of an achievement. Also there is an absence of relevant laws, regulations, policies, and necessary arbitration organs in the field of technology. Even more controversial is the pricing of technology: 38 percent of large enterprises and 62 percent of small and medium-sized enterprises consider current transfer prices "too high," whereas 90 percent of scientific research institutions believe they are "too low."

Given that the external environment and internal conditions of enterprises have not improved, we believe scientific work should seriously consider these points. The key to economic growth and technological progress lies with our ability to effectively marry scientific and technological prowess with large and medium-sized key enterprises in order to enhance the nation's capacity to modernize industrial technology, and, aided by horizontal economic linkages and a network of specialized cooperation, produce a ripple effect stimulating the development of the vast numbers of small and medium-sized enterprises. Therefore, the thrust of research and development for a long time to come should be to help large and medium-sized key enterprises achieve technological transformation; develop technology; absorb, assimilate, and innovate on imported technology; export and earn foreign exchange. Enterprise vitalization is central to the entire restructuring of the economic system and is a basic prerequisite for the flourishing of China's science and technology.

Moreover, consideration should be given to the difficulties faced by enterprises today in terms of fund and technology and to the fact that the union between scientific research and production has only just begun. Today, even as they take practical measures to speed up technological progress at enterprises, those in scientific and technological work should consider the overall national economic interests their top priority and actively support enterprise vitalization in technical matters. It would be inappropriate for research institutions to pursue their own economic interests exclusively.

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CSO: 4006/103

NATIONAL POLICY AND ISSUES

PRC TO IMPROVE ARBITRATION SYSTEM, PROCEDURES

HK280316 Beijing CHINA DAILY in English 28 Nov 86 p 1

[By staff reporter Wang Gangyi]

[Text] China is making new efforts to improve its arbitration system to cope with an increasing number of disputes between Chinese and foreign businessmen.

Cui Bingquan, deputy secretary-general of the Economic and Trade Arbitration Commission, said the efforts include the country's decision to join the United Nations' Convention on the Recognition and Enforcement of Foreign Arbitral Awards and a revision of China's arbitration procedures.

The decision to join the convention is under examination by the Standing Committee of the National People's Congress, currently in session in Beijing.

In making the proposal, Chinese Premier Zhao Ziyang said that joining the convention is a necessary part of China's policy of opening to the outside world. He said it will "be beneficial to the development of the country's economic and trade relations with foreign countries."

In his explanation of the proposal to the committee yesterday morning, Vice-foreign Minister Zhu Qizhen pointed out that China's joining the convention would ensure enforcement of an arbitration award to the Chinese if it becomes necessary to seek enforcement in the courts of a nation which is party to the convention.

He said it also would ease the concerns of foreign investors and businessmen who doubt that awards in their favour by foreign courts would be enforced in China.

The Convention on the Recognition and Enforcement of Foreign Arbitral Awards, generally known as the 1958 New York Convention, was signed by 45 countries at the International Trade Arbitration Conference which was held on June 19, 1958, under UN auspices. A total of 71 countries have signed the agreement to date.

Its main purpose is to unify and simplify domestic legal procedures of the member states in executing arbitration, in order to benefit the development of international economic and trade cooperation.

Cui told CHINA DAILY that with the adoption of new economic policies in 1979, trade disputes involving foreign parties had increased sharply.

At the moment, he said, the Foreign Economic and Trade Arbitration Commission is conducting hearings on 90 cases involving several million U.S. dollars. This is a large increase in both categories compared with last year.

However, Cui noted that the figure represents only a very small portion of actual disputes in China, since most parties are inclined to solve arguments among themselves.

"Our purpose is to protect the rights and interests of the clients whether they are Chinese or foreign companies," he said.

Cui disclosed that the commission was considering inviting foreign arbitrators to work for it in order to further guarantee the impartiality of its arbitration.

The commission also plans to make technical changes in its arbitration procedures to bring them up to international standards, he added. He did not elaborate on what the changes would be.

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CSO: 4020/51

PROVINCIAL AFFAIRS

BRIEFS

SICHUAN'S ECONOMIC DEVELOPMENT--Beijing, 20 Nov (XINHUA)--Sichuan Province has built and upgraded 1,300 kilometers of highways in the past 20 months to boost the economy in mountainous areas, the PEOPLES DAILY reported today. According to the report, "economic development in Sichuan Province, a hilly region in southwest China, has been hindered by inconvenient transportation. New highways now link Sichuan with Hubei, Hunan, Shaanxi, and Yunnan Provinces, and boosted economic contacts," the paper said, adding that it is estimated the new highways will help obtain economic increases of 70 million yuan (U.S. \$19 million) every year. Due to the poor transportation lines, Gongxian County in the southern part of the province had great difficulty in marketing its products, but since it widened three of its highways, the county has sold 31 percent more coal last year. All of its tobacco was shipped within one month. By selling bamboo to Shaanxi Province, two townships in north Sichuan's Nanjiang County have earned 82,000 yuan (U.S. \$22,160) since the highway was paved two months ago. [Text] [Beijing XINHUA in English 0711 GMT 20 Nov 86 OW] /9738

CSO: 4020/49

ECONOMIC DEVELOPMENT ZONES

DISCOUNTING, ACCEPTANCE OF BILLS IN SHANGHAI AREA

Shanghai WEN HUI BAO in Chinese 7 Aug 86 p 1

[By reporter Xia Zhenfei [1115 7201 7204]: "Breakthrough by Shanghai's Industrial and Commercial Banking System in Banking Reform; Acceptance and Discounting Carried Out of Drafts Regardless of Provincial and Municipal Boundaries; Officially To Start 1 October, This Will Open New Routes of Horizontal Fund Accommodations"]

[Text] The system of industrial and commercial banks in the Shanghai economic zone will inject a new "lubricant" into the economic development: the acceptance and discounting of drafts regardless of provincial and municipal boundaries. This will open a new route for horizontal financial accommodations, assist in invigorating the business of enterprises, and speed up fund turnover. It indicates a breakthrough progress, achieved by the industrial and commercial banking system in the Shanghai economic zone.

The presidents of industrial and commercial banks in the Shanghai economic zone, comprising areas of four provinces and one municipality, recently met in Jinhua and decided on provisional rules for the acceptance and discounting of drafts, signing an agreement that will officially become effective on 1 October.

The acceptance and discounting of drafts is a traditional tool of settlement and credit, internationally in universal use. It has been engendered in the processes of commodity production and exchanges, and developed following the emergence of commercial credit. When the new China was established, as a consequence of instituting a strict planned economy at that time, all credit was concentrated in the banks, every type of commercial credit was forbidden, the business of accepting drafts was interrupted, and the business of discounting was, therefore, also stopped. In the last few years, as the commodity economy was developing and the reform of the economic system in the cities was intensified, reform of the banks became imperative. The industrial and commercial banks in certain provinces and cities of the Shanghai economic zone resumed, on trial, the business of accepting and discounting drafts. When commodities were exchanged between units according to purchase-sale contracts with deferred payment terms, the documentary evidence that was drawn up to signify the relations between creditor and debtor was the commercial draft, and those accepted by a bank were banker's acceptances. If the payee needs money

he may present the accepted draft to his bank and request discounting. After checking the document according to regulations, the bank may then discount the draft. By these transactions, the industrial and commercial banks of Shanghai alone handled over 8,000 cases in a little over 5 years; the amount involved exceeded 900 million yuan. Practice has proven, that these transactions play an inestimably valuable positive role in promoting economic development:

The system is beneficial in the documentation of commercial credit and in the establishment of a new settlement procedure, as well as in strengthening credit management. In the past, credit between enterprises, in the form of installment payments or extended payment terms, did not use any documentary evidence or particular procedures. It frequently happened that when the indebtedness was incurred, everything was like "beautiful flowers and wonderful peaches," but when the time for payment came, there were "doors difficult to enter, and openings that would not open," or "1,000 years of never denying owing the money, but in 10,000 years still not having it paid back," so that the selling unit would have no guarantee of receiving payment. Now, the commercial draft contains clear provisions as to the date of settlement and the penalty for not paying on due date. This induces the debtor unit to arrange funds in a rational way to effect payment, and the payee unit is ensured of receiving punctual payment, while the banks, through acceptance and discounting, assist the enterprises in fund management.

The system is also beneficial in promoting horizontal economic linkages. The Shanghai Inland Navigation Co had old cement barges, which it urgently wanted to sell, to buy new boats, because the departments in charge of navigation would not allow cement barges on the Huangpu River. Tianchang County in Anhui Province needed six boats, but had no money, and would have to wait for profits from operating the new boats to pay for them. After negotiations between the banks of the two parties, a draft acceptance and discounting took place. As a result, the boats in question were in operation for only 1 year, when the Tianchang County not only settled the draft, but also had gained a profit of 340,000 yuan.

The system is also beneficial in providing short-term loans and in supporting production and circulation. In the first half of this year, the Shanghai Metal Materials Co bought one lot of steel ingots from the Baoshan Iron and Steel Complex at a price of 140 million yuan. The Metals Co had to entrust a rolling mill with the processing of the steel ingots into steel products, before it could sell the material to its customer. As the processing would take 5 to 6 months, the Metals Co would be without funds for some time and unable to pay Baoshan Steel, which would cause difficulties in Baoshan's turnover of funds. With the help of the bank, the Metals Co gave Baoshan an accepted draft, which Baoshan had discounted by its bank, in this way, finally, solving the dilemma. The role that this method plays in regulating the year-by-year production in industry, and in solving difficulties that arise through seasonal sales in commerce, is particularly evident. By applying this method, the draft and the goods are both finally fulfilling their objectives, and factories and trading firms are enabled to conduct their regular business year after year.

ECONOMIC DEVELOPMENT ZONES

BRIEFS

QINGDAO EXPANDS EXPORTS—Beijing, 19 November (XINHUA)—Qingdao has implemented new measures to increase production of export goods and establish more export bases, the overseas edition of the PEOPLE'S DAILY reported today. "At the end of last year, Qingdao, one of China's open coastal cities in east China's Shandong province, set up a group specifically in charge of exports to collect information from the provincial Foreign Trade Department and determine world market demands," the paper said. The city's 320 export-oriented enterprises have been encouraged to boost production, and so far this year have exported goods worth one billion yuan (US\$270 million). A textile mill in the city has developed 12 new products for export including waxing yarn and cotton-polyester fabrics, according to the paper. A carpet factory turned out 20,000 square meters of carpet for export in the first six months of this year, a 54 percent increase over the same period last year. Qingdao has established nine export bases in its suburban areas for chicken, grapes, asparagus and graphite, and the city's township enterprises now manufacture more than 80 different products for export, the paper said. [Text] [Beijing XINHUA in English 0710 GMT 19 Nov 86 OW] /12913

CSO: 4020/439

ECONOMIC MANAGEMENT

ENTERPRISES INCUR MOUNTING LOSSES

Beijing JINGJI RIBAO in Chinese 13 Sep 86 p 1

[Article by Xie Zhenjiang [6200 6966 3068]: "Measures to Stem Mounting Losses by Enterprises"]

[Text] Recent statistics from the Ministry of Finance make it clear that not only have state-run enterprises around the nation failed to meet their loss-reduction targets set by the government, but the losses have actually been climbing month after month. From January through August, the accumulated losses of all state-run enterprises in industrial production rose 69.8 percent over the same period last year, exceeding the limit for annual loss handed down by the government at the beginning of the year.

Reports suggest that since the beginning of 1986, industrial production nationwide has been growing in a stable balanced way at a normal speed. The energy and raw materials sectors have been doing relatively well, while the transportation and communication sectors have over-fulfilled the national plan. In general, the situation is good. But low profitability remains a glaring problem in industrial production and transportation.

In the analyses of some economic and financial experts, three things stand out about the losses that state-run enterprises have been piling up in the first 8 months of this year:

The extensiveness of the problem. In 1984 and 1985, 10.5 and 10.7 percent, respectively, of all enterprises ran up losses. This year it was already a high 17.6 percent as of late August.

The growing ranks of the new money-losers. The number of unprofitable state-run enterprises in industrial production topped 6,800 at the end of August, an increase of more than 1,600 over the corresponding period a year ago. Of the 6,800 enterprises, about 40 percent sank into the red this year.

Third, heavy losses are concentrated in a few industries.

An official in charge from the Ministry of Finance points out that mounting losses are extremely detrimental to the fulfillment of this year's revenue

plan and must be taken very seriously by leaders at all levels. He demands that all localities and agencies concerned strengthen leadership over the loss-reduction drive in accordance with the 10-point plan issued by the Ministry of Finance and the State Economic Commission about improving the profitability of industrial and transportation enterprises and cutting losses aggressively. The government would continue to cover losses, but only up to a certain fixed level. It may also reduce gradually the money it hands out to make good the losses. If an enterprise turns a loss into a profit in a certain year, it will be allowed to retain an amount equivalent to its projected loss for that year as well as all its profits. Moreover, it can keep its profits for the next 2 years in accordance with a set ratio. The government will not compensate an enterprise for any new losses it incurs as a result of mismanagement or for losses in excess of the projected target.

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CSO: 4006/103

ECONOMIC MANAGEMENT

DRUG PRICES RAISED TO STIMULATE PRODUCTION

HK280544 Beijing CHINA DAILY in English 28 Oct 86 p 3

[Article by Zhang Ping]

[Text] The prices of as many as 25 common medicines will be raised next month in an effort to increase their production and ease shortages that have prevailed across the country since early this year.

The new prices that will go into effect on 1 Nov will be 10 to 70 percent higher than present ones. Most of the medicines affected are antibiotics, fever fighters and pain killers, such as penicillin, aspirin, and vitamins.

"This is the first time for China to raise the prices of so many common medicines," Li Lin, an official of the State Pharmaceutical Administration said. "Since 1949, prices of such medicines have been lowered eight times."

He told CHINA DAILY that the price rises will be made partly because raw materials have increased and partly because low prices have discouraged pharmaceutical production.

The price of 100 aspirin tablets, for instance, will be increased by 64 percent from 0.55 yuan (\$0.51) to 0.90 yuan (\$0.25). And of one hundred 0.1-gram vitamin tablets by 52 percent from 0.65 yuan to 1 yuan. The price of paracetamol, a combination pain-killer and fever-reducer, will be raised by 15 percent from 13 yuan (\$3.5) per thousand 0.5-gram tablets to 15 yuan (\$4.1).

To offset the effect on consumers, Li said, the state has lowered the prices of two drugs—the antibiotic gentamicin by 6 percent, and one used to treat inflammation by 14 percent.

According to Li, the whole country has suffered a severe shortage of drugs since early this year. Many often-used drugs, like antibiotics, insulin and anticarcinogens, have been in short supply at hospitals. Doctors have had to adjust their chemotherapy prescriptions and substitute less effective treatment.

The main cause for the drug shortage has been a lack of raw materials, whose prices have risen beyond the reach of factories with limited funds, the official said.

A recent survey showed that many pharmaceutical factories are short of chemical raw materials like anilin, iodine and acetose. They can get only about 60 percent of the materials they need.

Another reason is that the price of medicinal grain has increased greatly. The price of corn, the main raw material in dextrose infusion liquids, for example, has risen from 180 yuan (\$48) per ton to 480 (\$129). Of the country's 40 dextrose infusion factories, 30 have stopped production.

China's Pharmaceutical Industry Company has been trying its best to solve the drug shortage. Production of drugs in short supply has been resumed or increased. Other drugs with similar curative effects are often substituted. Now among the listed 68 drugs that have been short, 67 percent--including insulin--now fill the need fully or partially.

"Production of 26 drugs still needs to be improved," said Guang Qili, director of the planning department of the State Pharmaceutical Industrial Company.

"However," he said, "some hospitals may face shortages because of the drug distribution problem."

Last May, hospitals in Beijing were complaining they were short of 195 drugs. But soon they discovered that half were available in stocks of the pharmaceutical company.

In recent years, the supply and demand relations between hospitals and pharmaceutical companies has become confused. Unlike in the past when hospitals mainly relied on the pharmaceutical company for supplies, now they can get drugs through other sources. So each knows less about what the other needs or has to offer.

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CSP: 4020/49

ECONOMIC MANAGEMENT

MAJOR PRINCIPLES FOR CAPITAL CONSTRUCTION

OW191115 Beijing XINHUA in English 0909 GMT 19 Nov 86

[Text] Beijing, 19 Nov (XINHUA)—Today's economic daily calls for continued limits on the investment in capital construction next year to keep economic development steady.

The paper says in a commentary that investment must be put into projects with quicker and better results in 1987, second year of the seventh five-year program (1986-90).

The main task for the national economy and social development next year is to keep the basic balance between general social needs and supply.

Premier Zhao Ziyang said in the "report on the seventh five-year plan" early this year that a decisive factor in steady economic growth is that the scale of investment must correspond to the financial capacity of the state.

"This is an objective law of socialist economic development. Allowing over-investment in defiance of this law will inevitably give rise to serious disproportions between major economic sectors, causing setbacks to our economy and delaying the process of modernization," Zhao indicated.

Whether the arrangement of investment in fixed assets is appropriate and the investment structure rational will greatly affect the overall situation, the paper notes.

To ensure the steady development of the national economy in the long run, it is necessary to rearrange the investment structure, raise economic results of investment and concentrate on key capital construction projects.

The paper calls for sticking to such principles to ensure the investment in the infrastructure and basic industries such as energy, transport and raw materials, and badly-needed productive construction projects, and cut down investment in construction of ordinary processing industry and non-productive construction projects.

Priority will be given to construction of projects of energy, transport and raw materials. Projects, of which the construction and production conditions are not yet ready or supportive projects lacking, must be halted or postponed, the paper said.

ECONOMIC MANAGEMENT

BRIEFS

LEASED STORES PROFITABLE--Beijing, 5 Nov (XINHUA)--All of Beijing's 1,300 state-owned shops and service businesses have earned profits since they were leased to private individuals or collectives in July, the BEIJING DAILY reported today. Before they were leased, 200 of them were losing money while the others were making marginal profits, the paper said. The businesses have become profitable by extending service hours, linking workers' income to revenues, improving service and increasing inventories, now that they are responsible for their own losses and profits. "The new system has been good for everyone," the paper said. "Not only has it ended the government's losses and generated new tax receipts, but also increased workers' earnings and provided the new managers with profits." At the same time, by increasing available services, "it has made it easier to get a haircut or have one's bicycle repaired in Beijing," it said. [Text] [Beijing XINHUA in English 1149 GMT 5 Nov 86 OW] /9738

CSO: 4020/49

FINANCE AND BANKING

PRIVATE RURAL BANKS PROMOTE ECONOMIC DEVELOPMENT

OW031827 Beijing XINHUA in English 1606 GMT 3 Nov 86

[Text] Beijing, 3 November (XINHUA)—For the first time in many years, Chinese peasants can count on cooperative or private banks for loans to develop production according to the PEOPLE'S DAILY today.

The paper cited the example of Wenzhou in Zhejiang Province, where such banks now supply 80 percent of the funds needed by the 130,000 industrial and commercial businesses run by local peasant families.

These businesses need a total of 500 million yuan of funds a year to expand production, but state banks and rural credit cooperatives can only provide one-fifth of the sum.

Thanks to the policy of encouraging rural prosperity, the paper added, peasants in the area are estimated to have 1 billion yuan of surplus money to lend to others.

Another example of Guangdong Province, where the amount of surplus money that can be used as loans is estimated at 8 billion yuan.

The non-government banks are owned by one or several people or by groups of enterprises and most of them were set up last year in coastal provinces such as Liaoning, Shandong, Jiangsu, Zhejiang, Fujian and Guangdong.

Their emergence impels official financial institutions to change their old practices of floating interest rates and breaking limits on bank deposits and loans, the paper said.

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CSO: 4020/48

MINERAL RESOURCES

GANSU'S BAIYIN NONFERROUS METAL PRODUCTION

Largest Nonferrous Production Base

OWO20132 Beijing XINHUA in English 0115 GMT 2 Nov 86

[Text] Lanzhou, 2 November (XINHUA)--Baiyin City in northwest China's Gansu Province is expected to become the country's largest nonferrous production base during China's Seventh 5-Year Plan period (1986-90), according to a provincial planner.

China has invested 1.4 billion yuan (378 million U.S. dollars) to build a non-ferrous production base which includes copper, lead, and zinc mines, lead, zinc and aluminium processing plants, and a technical renovation project.

Baiyin City, also known as the "copper city," will increase its production of copper, lead, zinc and aluminium from the present annual 30,000 tons to 300,000 tons when the above projects are completed in 1988. Total industrial output value will double and profits are expected to triple, according to an official in charge of the projects.

Upon completion, the Baiyin aluminium plant and the Changba lead and zinc mine will continue to go into second stage expansion which is designed to surpass a combined annual production of 400,000 tons.

This nonferrous production base in Baiyin City, developed by a copper producer, is built on a mineral deposit which has a verified reserve of 9.6 million tons of lead and zinc. The deposit is also near a branch of the Yellow River which supplies the city with plenty of water and electricity.

Nonferrous Metal Projects

OWO71418 Beijing XINHUA in English 1228 GMT 7 Nov 86

[Text] Lanzhou, 7 November (XINHUA)--The state plans to spend 4.5 billion yuan (about 1.2 billion U.S. dollars) on five projects to produce nonferrous metals in Baiyin City, Gansu Province.

According to a local government official, the authorities will make the city the largest nonferrous metal producer in China by 1990.

The city now has an annual production of 50,000 tons of nonferrous metals. The official said that by 1990 a smelter with an annual production capacity of 150,000 tons of lead and zinc will be set up, the official said.

The five projects also include a factory to produce 100,000 tons of electrolyzed aluminium a year and copper refineries, the official said.

"By then, Baiyin will become the largest nonferrous metals producer in China with a production of 300,000 tons," the official said.

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CSO: 4020/48

INDUSTRY

WUHAN STEEL COMPLEX LAUNCHES MASSIVE TECHNOLOGICAL TRANSFORMATION

Beijing RENMIN RIBAO in Chinese 29 Oct 86 p 3

[Article by Tian Huiming [3944 1920 2494]: "Wuhan Iron and Steel Complex Modernizes to be the Largest in China"]

[Text] The State Council recently approved the plan by Wuhan Iron and Steel Complex to undertake a massive technological transformation during the Seventh 5-Year Plan to increase annual steel and iron output from 4 million to 7 million tons each.

The realization of this magnificent plan would catapult the Wuhan complex into the position of the largest iron and steel complex in the nation, overtaking Liaoning's Anshan complex and Shanghai's Baoshan complex.

Last May Premier Zhao Ziyang inspected Wuhan and said that with its central location in the heart of China and its many unique advantages, the complex should vigorously transform itself technologically in order to increase its production capacity.

In mid-October, Minister of Metallurgical Industry Qi Yuanjing [2058 0337 7231] met with several high-ranking officials from the State Planning Commission, Hubei Province, and the city of Wuhan at the Wuhan Complex and examined and approved there and then the "double 7 million tons" plan. They also discussed such specific matters as the raising of capital, the purchase of equipment, energy, and transportation.

Built in the 1950's, Wuhan was China's first heavy iron and steel complex. At the time Soviet expert A Er Xi Bo Fu and others helped China with site selection and the construction of blast furnaces, among other things. On 13 September 1958, when Wuhan smelted its first heat of iron, Mao Zedong and others were on hand to take part in the grand ceremony.

In the 1970's, the government spent 4 billion yuan to purchase from the Federal Republic of Germany and Japan an entire set of modern steel rolling equipment and built a hot rolling plant and a cold rolling plant, which made possible the production of thin steel plates urgently needed in China. Over 6 years after it was put into service, the set of equipment has fully recouped the original investment.

This giant of a steel complex is located to the south of Changjiang, about 30 kilometers east of Wuchang. The nation's second largest iron and steel works after Anshan, it has more than 60 plants under it and currently employs 130,000 people.

INDUSTRY

COAL MINERS DIVERSIFY INTO SIDELINE ENTERPRISES

OW291152 Beijing XINHUA in English 1140 GMT 29 Oct 86

[Text] Beijing, 29 Oct (XINHUA)--China's coal miners and their families are involved in producing more than 10,000 other products outside the mines, an official of the Chinese Coal Industry Ministry said today.

"Aside from processing the coal itself," he said, "people connected with the mining industry are involved in making building materials, machines, light industrial goods and chemical products."

In addition, he said, they produce textiles, processed timber and food and farm products and are involved in service trades. Altogether, he said, miners and their families produced more than four billion yuan (U.S. \$1 billion) in output value outside the mines in 1985.

The most important producers of sideline income for the families are the grown children of miners, the official said, who otherwise might not have jobs. Other sideline workers include former miners whose health might be damaged by continuing in the mines.

Some state-owned mining enterprises have diversified into other areas, employing people in machine repair, hardware manufacture and construction projects.

According to Yu Hongen, the minister of coal, by doing their own construction and other work, "the mining enterprises have not only saved money, they have developed needed service enterprises and have helped improve the lives of the miners' families."

Yu said the ministry would spend 300 million yuan (U.S. \$81 million) a year through 1990 helping the mines diversify.

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CSO: 4020/49

INDUSTRY

INDUSTRIAL GROWTH RATE BECOMES 'NORMAL'

HK190246 Beijing CHINA DAILY in English 19 Nov 86 p 4

[First paragraph is CHINA DAILY introduction]

[Text] Although China's industrial growth is slowing down this year, the total industrial output value for the first 10 months has increased by 7.4 percent over last year.

After accounting for outside factors, overall economic results are still not bad, according to a report by the State Economic Commission and paper ECONOMIC INFORMATION. Excerpts follow:

Since the start of this year, China's industry has become normal compared with last year's overzealous growth pace. Yet, some new changes should be observed and studied.

First is the industrial output increase versus tax and profit decreases. While the total industrial output value has gone up, taxes, profits and revenue decreased.

The second change is product cost and capital expense increases. The total cost of manufactured goods increased, in the first eight months, by 4.6 percent over the corresponding period last year.

Other changes include slowly growing labor productivity and rising industrial loss figures. These indicate that overall industrial profitability is decreasing and that there exist a number of complicated problems that deserve our attention.

Some might recall that China's economy was boosted to an excessive degree until early this year--so fast that neither financial nor material capabilities could match that speed. Rational adjustment has been made to halt the unusual growth rate.

Therefore, it is not advisable for us to compare sheer figures from this year with those of last year when the measurement cannot accurately indicate the rate of growth or fall.

Another factor lies in conflict between demand and supply of industrial products. On one hand, unsalable goods are stockpiled in warehouses; on the other, supplies of good quality products are short. In such a context, demand-supply balance is difficult to reach within a short time.

Other factors have affected industrial production. Although there still exist a number of inefficient, mismanaged enterprises, most other industrial sectors are undergoing fundamental changes which are so novel and thorough that they are not yet accustomed to the new situation. They will be catching up in a little while.

Some of the following factors should also be taken into account when assessment of this year's industrial results is made:

Rising prices of raw materials, fuel, power and transport have increased production costs. In fact, as much as 59 percent of cost increases were due to price hikes and were transferred into benefits for non-industrial sectors, such as agriculture, transport and banking corporations.

Wage and management fee increases have affected industry's effort to keep product costs down. According to estimates, another 37 percent of increasing product costs was caused by pay raises and higher managerial fees and expenses.

A shortage of foreign hard currencies has compelled some factories with imported equipment to slow down production which depends heavily on imported accessory supplies.

Too many special fees have been collected. A survey of 16 factories in Yantai, Shandong Province, revealed that the total fees collected in the first half of this year had equalled last year's total.

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CSO: 4020/49

INDUSTRY

BRIEFS

PETROCHEMICAL INDUSTRY GROWTH—Beijing, 20 Nov (XINHUA)—The reform of China's economic structure has helped the country's petrochemical industry to grow rapidly, an official involved in the industry said. The China Petrochemical Corporation, which manages China's petrochemical industry, will turn out 185,200 tons of polyester this year, three times as much as the country's output in 1982. This was cited as an example of the advances in the industry. Under the economic reforms, the management of 39 major refineries, petrochemical and chemical fiber plants throughout China were streamlined into one large corporation. Previously, the plants and refineries were run by various central departments and administrative regions. The corporation now exercises control over planning and management of the enterprises, making it possible to make maximum use of oil and natural gas resources. The petrochemical industry will turn out one million more tons of urea this year than in 1982. It has turned over 10.4 billion yuan in taxes and profits annually to the state since 1983, up an average of 22.4 percent from 1982 and more than any other industry. Since 1982, the official said, China's crude oil refining output has grown at an annual average rate of 3.4 percent. [Text] [Beijing XINHUA in English 0229 GMT 20 Nov 86 OW] /9738

CSO: 4020/49

DOMESTIC TRADE

NEI MONGGOL HOSTS NATIONAL TRADE FAIR CONFERENCE

SK200933 Hohhot Nei Monggol Regional Service in Mandarin 1100 GMT 18 Nov 86

[Text] At the national conference recently held in Nei Monggol Autonomous Region on trade fairs and market management, participated in by the 10 provinces, municipalities, and autonomous regions of North China, the participating comrades unanimously held that in conducting reforms and enforcing the policy opening to the outside world to enliven the economy, the trade fairs and markets of the 10 provinces, municipalities, and autonomous regions, including Beijing Municipality, Liaoning Province, and Nei Monggol Autonomous Region, have developed into a new phase. They have become an important channel in commodity circulation by reversing their former tasks of readjusting surpluses and shortages, helping supply each other's needs, and filling up the deficit caused by the state commercial firms. The main indicator of this change is that commodity dealers and the scope of commodity supply in these trade fairs and markets have done away with the former practice of only having peasants sell and buy their farm and sideline products, and that these trade fairs and markets have become ones full of specialized or comprehensive commodities turned out by both domestically and from the outside as well as private and public producers. Market dealers and business methods have broken through the former traditional trading style. The style of direct business operations only participated in by peasants has been changed into the exchanging operations joined by the state, collective, and individual producers; intermediate traders and dealers; and by all sorts of consumers.

The transportation of commodities among these trade fairs and markets has been changed from carrying goods by hand, shoulders, and bicycles to handling commodities with motor vehicles, trains, ships, and airplanes. Localities which have achieved rapid development in the commodity economy have formed a new economic pattern with the foundation of enterprises run by townships and towns and of industrial plants run by households, with the backing of wholesale markets dealing with specialized commodities, and with the major marketing forces of households acting as commodity transport agents. The style of purchasing and sales among these trade fairs and markets has also broken through the traditional cash trade and exchanges of commodities. They have developed to adopt various ways and means in conducting business, such as conducting overall marketing, acting as sales and storage agents, acting as transport agents, and carrying out final accounting, ordering minor

commodities by seeing samples, and signing business agreements and delivering contracted goods within the prescribed date.

The volume of commodity sales among these trade fairs has increased sharply. The number of new built trade fairs and markets has grown from nothing in the urban areas and from a few in the rural areas.

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CSO: 4006/124

DOMESTIC TRADE

BRIEFS

TRANSREGIONAL TAX BREAKS--Beijing, 11 November (XINHUA)--Most of China's provinces and regions are giving tax and credit subsidies to state-owned enterprises involved with firms in other parts of the country, the ECONOMIC DAILY reported today. The subsidies are designed to encourage the enterprises to take advantage of resources elsewhere in China, according to the paper. Ultimately, it said, this transregional cooperation should lead to even more economic development throughout the country. The new provisions will encourage enterprises in the more prosperous coastal provinces to combine their advanced technology with the abundant supply of workers and previously untapped natural resources in China's less developed areas. To qualify for the subsidies, an enterprise must have recently become profitable after a period of losses and must have improved the quality of its products or have developed new ones by engaging in transregional cooperation, according to the paper. In Guizhou province, for example, such enterprises will be exempt from income taxes for two years from the first day they become profitable and will be exempt from half of their income taxes in the third year. In Shandong province, banks are cutting interest rates by 20 percent for enterprises that qualify for the subsidies. [Text] [Beijing XINHUA in English 1150 GMT 11 Nov 86 OW] /12913

CSO: 4020/439

FOREIGN TRADE AND INVESTMENT

PRC OFFICIAL ON ENCOURAGING INVESTMENT

OW252113 Beijing XINHUA in English 1615 GMT 25 Nov 86

[Text] Hong Kong, 25 November (XINHUA)--A leading Chinese legal expert encouraged more foreign investors to do business on the mainland.

The Chinese government has made great efforts to solve the problems of foreign invested ventures in the past few years, and will further improve the investment climate," Gu Ming, general director of the Economic Legislation Research Center under China's State Council, told XINHUA here today. He said, "China will enact a fairly complete set of economic laws during the 1986-90 period to protect the legal interests of foreign investors."

Gu, also chairman of the China Research Institute of Economic Laws added, "China has formulated more than 300 economic laws since 1978, and many are aimed at promoting joint ventures and other businesses involving overseas investment."

Early this year, the State Council published two regulations on balances of foreign exchange for joint ventures and further preferential treatment to encourage overseas investment.

"China is accelerating the pace of personnel training to help implement laws and statutes," Gu Ming said, adding that at present, China has only 20,000 lawyers. "The number is too few, compared to some 700,000 lawyers in the United States," he said.

To cut red tape, the State Council set up an advisory group earlier this year, and Tianjin, Shanghai, Xiamen and other major cities have set up joint offices to make decisions on foreign economic relations, he said.

As a result, applications for some projects which used to take a year or even two years to get approval can now be decided within three months. In the past, establishment of a business involving foreign investment had to be approved by a dozen departments.

Another measure to enhance efficiency is that foreign-funded businesses can import materials or components for production according to contract without the repeated approval of Chinese authorities. "The approval procedure was once exhausting and a headache for investors," Gu said.

Overseas businessmen are worried about the repercussions of firing employees because the majority of Chinese enterprises adopt a lifetime employment system.

"This worry can be dispelled because China has published four documents this year enabling all business managers and factory directors to have the final say on personal matters," Gu stressed.

Additional or unreasonable charges imposed by local departments is another headache for overseas investors. "As for this problem, joint ventures have the right to dispute the charges and refuse to pay," Gu said.

He also noted that income tax for joint ventures in the special economic zones, which accounts for 10-15 percent of the revenue, is the lowest compared to most parts of the world.

At the invitation of the Chinese General Chamber of Commerce of Hong Kong and the China Patent Agency (Hong Kong) Ltd., Gu Ming will explain the mainland's laws and regulations on foreign economic relations to local businessmen there.

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CSO: 4020/441

FOREIGN TRADE AND INVESTMENT

POLICY OF ENCOURAGING FOREIGN INVESTMENT

HK181506 Beijing RENMIN RIBAO in Chinese 16 Nov 86 p 2

["Excerpts" from speech by Yang Guangqi (2799 0342 0796), deputy general manager of the China International Trust and Investment Corporation, at the 2d Sino-Japanese Economic Seminar sponsored by the general offices of RENMIN RIBAO and NIHON KEIZAI SHIMBUN: "China's Policy and Measures for Encouraging Foreign Investment"]

[Text] Some foreign firms and friends said: China's current investment environment is still not very satisfactory. For example, labor cost, land fees, and charges for factory buildings and other items are still a bit too high. All these factors have increased production costs. Moreover, it is difficult to strike a balance in foreign exchange. Work efficiency is low, formalities are tedious, and laws are not complete.

China is earnestly studying solutions to the above-mentioned problems and has adopted effective measures to improve its conditions for foreign investment so that our investment environment will have a greater attraction.

Above all else, we shall pay particular attention to exploiting our strong points of relatively low labor cost and other fees to make the products turned out by foreign investors in China distinctively more competitive than those produced by them in our neighboring countries and regions. Special preferential treatment will be given to export-oriented enterprises and technologically advanced enterprises in such areas as service charges, land fees, enterprise income tax, and tax on enterprise profit transfers out of the country. They will be given priority in water and electricity supplies and communications and telecommunications facilities and the state will collect fees in this regard from them as it does with state-owned enterprises. Foreign investors who re-invest their profits in China are entitled to get back 40 percent of the income tax that their enterprises have paid. If they invest their profits in export-oriented enterprises or technologically advanced enterprises, all income tax that they have paid will be refunded.

We must see that the investors will make a profit. This will help attract more people to invest in China. Now more and more people in China have come to realize this truth.

The Chinese Government has decided to guarantee the decisionmaking power of foreign-funded enterprises so that they can carry out their production and operations in line with international practices. For example, they are entitled to determine their setups and to hire or fire their employees; the decisionmaking power of foreign-funded enterprises in production and operation is guaranteed; foreign enterprises are entitled to define their wage and rewards systems independently and are empowered to import equipment, raw and semifinished materials, and components or spare parts necessary for executing their export contracts. They are no longer required to go through additional examination and approval formalities or to apply for import licenses.

The problem of achieving a balance in foreign exchange by joint-venture enterprises should be solved by both parties involved in the enterprises. In the light of different conditions, the Chinese side is considering taking different methods: The state will allot the needed foreign exchange to the projects which are badly needed by the state and where the enterprises themselves are really not in a position to repay the foreign exchange. The foreign exchange necessary for importing the goods in large quantities which are constantly needed by the country will be balanced using the method of importing goods with sale of products. Enterprises are encouraged to adjust and balance their foreign exchange among themselves. Chinese enterprises are entitled, after approval, to conduct countertrade or comprehensive compensation trade with foreign enterprises; and foreign firms are also entitled to invest and form umbrella-type companies with Chinese enterprises. The company can invest in enterprises belonging to different localities and departments. Some enterprises are foreign exchange users and some are foreign exchange earners, and their foreign exchange is balanced by the company in a unified way. Of course, these measures need to be applied according to specific projects through consultation and some need to be written down in contracts.

On the part of foreign countries, they should increase their import of Chinese goods rather than be exclusively concerned about dominating the Chinese market. We want to export more goods in the hope that we can import more goods from foreign countries with money earned from export.

There are favorable conditions for Japan to expand its investment in China. China has relatively cheap labor, rich natural resources, and a considerable industrial foundation. If these favorable conditions are combined with Japan's technology, equipment, and funds, they will have bright prospects. It is our hope that Japan will be more liberal in technology transfers and make more investment in China. Science and technology are constantly developing. Compared with China, Japan has a sounder technological foundation. If China makes some progress technologically in the future, instead of ceasing to make progress, Japan will continue to move ahead with its technology. Therefore, superfluous worries are unnecessary. China's exports constitute a very small proportion in the world market. If China and Japan cooperate with each other, learn from each other to make up deficiencies and increase exports to open up new markets, this will be of benefit to Japan and China as well. With the current appreciation of its yen, Japan has more favorable conditions to invest abroad. We welcome more Japanese firms to invest in our country to expand the market for its export products.

I would like to inform you that we are speeding up the formulation of the detailed rules and regulations concerning Sino-foreign joint ventures and wholly foreign-owned enterprises in China, including providing convenient living conditions for foreign personnel and conditions for their children to go to school. In brief, in my opinion, we must adopt a forward-looking attitude toward the problems facing foreign firms making investment in China and I hope our Japanese friends will make suggestions for improvement.

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CSO: 4006/124

FOREIGN TRADE AND INVESTMENT

DALIAN ANNOUNCES NEW PREFERENCES FOR FOREIGN INVESTORS

Beijing GUOJI SHANGBAO in Chinese 14 Aug 86 p 1

[By reporter Wu Xinhui [0702 2450 1979]: "Dalian Announces New Preferential Treatment Policy for Foreign Investors; Reductions in Land Rental, Labor Service, Engineering, Materials, and Other Charges; Change in Depreciation Method, Accelerated Recovery of Investments"]

[Text] The State Council has decided to allow Dalian to adopt a policy of more extensive preferential treatment for foreign investors in Dalian. This was communicated by Wei Fuhai [7614 1381 3189], mayor of Dalian, to representatives of foreign enterprises, firms, and banks, with offices at Beijing and Dalian, and to Chinese and foreign reporters at a meeting on 9 August for the introduction to the condition of further opening up Dalian City.

Gao Guozhu [7559 0948 3796], assistant to the mayor of Dalian, introduced the participants at the meeting to the six measures of preferential treatment for foreign investors, recently decided upon by the municipal government. The following is a gist of these measures:

1. Reduction in the standard fees for land rentals and infrastructure. The land rental shall be computed at the following prescribed limits: enterprises with foreign investment which export 60 or more percent of their products, or which truly import technologies and equipment of advanced world standards, may, with the approval of the municipal government, be exempted from land rental for 5 years. Enterprises with foreign investments shall be charged infrastructure fees only for actual cost of improving outer appearances, and shall be exempt from paying capital expenses.

2. As regards charges for water, electricity, gas, and heat, enterprises with foreign investments shall enjoy the same treatment as applied to state enterprises. Materials needed by enterprises with foreign investments for their production shall be supplied by the materials supply department of the Dalian municipality according to the rational prices prescribed by the state, as far as domestically available. Sundry items, parts, components, and raw and semifinished materials (including articles for which the state has restricted imports), needed by enterprises with foreign investments for the fulfillment of export contracts, shall, without further examination and

approval, be exempt from the need to obtain import licenses; the customs shall pass such items on the strength of the import contracts. However, should these items be used for domestic sales, they will still have to pay supplemental duty and make up import procedures.

3. Reduction of labor service charges to enterprises with foreign investments for Chinese staff and workers. The salaries and wages actually to be received by Chinese staff and workers shall be determined at 120 to 150 percent of the salary and wages paid to staff and workers in the same line of business in that particular area. The standards for deduction for labor insurance shall be the same as in state enterprises, namely 20 percent of the salary or wage actually received. For housing, city transportation expenses, the price of coal, and other such financial allowances, a fee of 50 yuan per person per month shall have to be paid to the authorities.

4. Extension of the period of exemption from local income tax. An enterprise with foreign investment shall be exempt for 7 years from local income tax, starting with the first year of making a profit. Enterprises which export 70 or more percent of their production and knowledge-intensive, technology-intensive projects, or projects in the field of energy, communications, and harbor construction, may, with due approval, have the period of exemption from local income tax extended. Enterprises with foreign investments may pay their taxes in RMB.

5. Instituting the declining-balance method of depreciation for fixed assets. Depreciation funds may be used in redeeming loans. The rules for balance depreciation are: for buildings, 15 percent; for machinery and equipment, 20 percent; for means of transportation and electronic instruments and meters, 30 to 40 percent. Should the balance decline to one-tenth of the original value, deductions for fixed asset depreciation shall cease, to ensure its end at the determined years of use. Determination of the starting year and limits of years for the tax reductions and exemptions shall follow the method of calculating depreciation prescribed in the country of origin.

6. For project execution and building expenses of enterprises with foreign investments the same standards of charges shall apply as for the same lines of business in China.

The above measures were generally welcomed by the foreign businessmen attending the meeting. The representative of a Japanese firm immediately wired his head office in Japan to the effect that the new measures are conducive to medium and small enterprises placing investments in China.

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CSO: 4006/1320

FOREIGN TRADE AND INVESTMENT

GU MU ON FUJIAN'S OPENING UP TO FOREIGN COUNTRIES

Beijing LIAOWANG [OUTLOOK] OVERSEAS EDITION in Chinese No 22, 2 Jun 86 pp 8-9

[Article by Xu Yiming [6079 0001 7686]: "State Councillor Gu Mu Discusses Fujian's Open Policy"]

[Text] Editor's Note: Fujian Province on the southeast coast of China is one of the two provinces allowed to enact special policies to open up to the outside world (the other province is Guangdong). A few days ago, Gu Mu, State Councillor, inspected the processing industry, the Chinese-foreign joint ventures, homes for overseas Chinese, tourist spots, and hotels in Xiamen, Quanzhou, Putian, and Fuzhou. Along the way, he met many cadres, workers, and peasants. On arrival at Fuzhou, Gu Mu exchanged views with Governor Hu Ping [5170 1627] and other provincial leaders on the new situation after the opening up of the province. The present inspection, which has not yet been made public in detail, has a bearing on the present and future direction of Fujian's open policy. The following report provides the gist of the discussions between Gu Mu and the Fujian Provincial Government and the Xiamen City government.

Economic Reform And Opening Up To The Outside Are Irreversible

Governor Hu Ping informed Gu Mu that the last few years marked a transition in Fujian's economic and social development from a closed door policy to an open door policy. In the 42 years from the War of Resistance Against Japan to 1979, Fujian's doors were closed to the outside for reasons well known. Since 1979, Fujian has instituted special policies and flexible measures and freed itself from the fetters of a "leftist" ideology. We realized that Fujian's path to development lay in reform, opening up, and becoming flexible and creative. Over the past few years, Fujian exploited its four advantages over the past few years. These are its mountains, location on the ocean, its overseas Chinese, and special economic zone. Fujian utilized both domestic and foreign resources to exploit both domestic and foreign markets, and developed its skills in domestic construction and developing foreign economic relations. In actual practice and in its experiments, Fujian has been successful.

--As a result of reforms in the rural economic system, the rural economy has gradually shifting from a semi self-sufficient economy to a specialized,

commercialized, and modernized economy. The variety of commodities supplied by rural areas is increasing year by year. In 1985 procurements of agricultural sideline products were valued at 3.9 billion yuan, an increase of 88.4 percent over 1980.

--Gross value of industrial output increased at an average annual rate of 13.2 percent (output of rural industries not included). The province moved up from 19th to 17th place in terms of per capita income.

--More infrastructure was laid and ten major projects were built. These projects are the renovation of the Yingtian-Xiamen and the Waiyang-Fuzhou railways lines, the expansion and new constructions at the Fuzhou and Xiamen airports, the construction of the Mawei harbor at Fuzhou and the Dongdu harbor at Xiamen, the Yong'an and Shaxikou power plants, and the program-controlled telephone installations at Fuzhou and Xiamen. In addition Fujian acquired a locally administered fleet of oceangoing ships for passenger and freight transportation. In the last few years, Fujian spent about 2.5 billion yuan on investments for these projects. Apart from state investments, a large part of the financing came from foreign capital and foreign exchange loans, and by capital raised by the projects themselves.

--To date, Fujian has established economic and trade relations with more than 130 countries and territories and financial cooperation with more than 20 countries and territories. The total of utilized foreign capital, including contributions from overseas Chinese, accounts for one-tenth of all fixed assets investments in the province. Fujian imported 750 items of advanced technologies and equipment to improve traditional industries, with an investment of 1.3 billion yuan. This led to a production increase of 4 billion yuan and an increase of 1.05 billion yuan in taxable profits.

After reviewing these changes, Governor Hu Ping told Gu Mu that conditions in Fujian Province were very good. One of the biggest benefits of the reforms and the open policy is that the cadres have derived new skills and a higher level of awareness. These are indispensable tools needed for reforming and opening up even further. Of course there are economic problems, social problems and some notorious cases in the past. Some of these problems have been solved while others are being dealt with in a comprehensive way.

Gu Mu responded that China's situation has been continuously improving after opening up to the outside world. As with Guangdong, Fujian, in frontline position in the open policy, has derived valuable experience. There will be no turning back from the open policy, reforms, and vitalization of the domestic economy. This is the path we must take if China is to be rich and strong. There is no justification for any underestimation or skepticism regarding the successes gained in reform and opening up.

Gu Mu said that the situation he saw in his stops in the province, whether at Xiamen, or at Quanzhou, Putian, or Fuzhou were fine. There have been increases in industrial and agricultural output, per capita income, foreign capital utilization, foreign trade, and the three forms of import processing (import of raw materials, import of parts, import of samples) and compensation trade. Domestically and abroad, some people have expressed reservations about our

reforms and open policy. We must be clearheaded and steadfast. The open door and reforms are not just intended for procuring material things. They are also meant to bring about foreign exchange earnings and economic construction. Even more important, they are a way to break out of our old framework. We are now traversing a path no one has dared to think of traveling before. It is the path of a new socialism with Chinese characteristics and the inauguration of a new historic period. That is why we cannot reverse our reforms or the open policy. Now all our efforts are devoted to loosening up, not tightening up.

Maximizing The Many Advantages We Have With Our Overseas Chinese

Governor Hu Ping told Gu Mu that more than 6 million Fujianese live abroad as overseas Chinese or Chinese of foreign nationalities. They constitute one-third of the overseas Chinese. They are represented in the five continents and are dispersed in over 90 countries and territories. Ever since Fujian opened up to the outside and opened up a special economic zone, there has been a large increase in the number of overseas Chinese returning as tourists, donating gifts, investing, and contributing in an important way to the province's economic development.

Gu Mu said that the first, second, and third generation overseas Chinese were poor common folks. After many years of struggle, however, they have attained good positions abroad. Now we need to do two things. First, we need to earnestly invite them to return to invest. They can first invest in small projects and proceed to larger ones. Second, we need to cooperate with them to produce goods that are competitive on the international market. We must be respectful of them. We must allow them a free hand in running joint ventures, subsidiary companies, and jointly-run enterprises they have already started, whether large or small. We must adhere to the principles of mutual benefit and profit and give them preferential treatment. I suggest that Fujian look upon the wooing of overseas Chinese as a major task and invite them to better contribute to the economic development of the motherland.

There Should Be Further Advances In The Utilization Of Foreign Capital

Gu Mu said that last year there was rapid development in the entire coastal area of Fujian, including the Xiamen SEZ. This year further progress must be made in the use of foreign capital. On the foundation laid last year, those areas which deserve it must be further stimulated, because this year it is not only a question of this year alone, but a question also of the logistics for next year, the year following, and even a number of years thereafter. There simply have to be improvements, therefore, in energy supply, communications, and transportation. Attention must, furthermore, be directed at the importation of foreign capital and technologies and the increase of exports that will create additional foreign exchange. Enterprises outside the state plan, as long as they are exporting and creating foreign exchange, and as long as they employ truly advanced technologies, should be encouraged to forge ahead. This includes the further development of certain projects in the coastal areas. To ensure the continued development of certain useful projects, certain unimportant projects could be screened out. As a result of such eliminations, those that truly deserve it must be further

promoted, especially projects that will accelerate China's national development within the next 3 to 5 years. Under no circumstances must there be any falling-off in the importation of foreign capital and technologies.

Large Advances In Xiamen SEZ Development

During his stay in Xiamen, Gu Mu paid particular attention to reports of the leadership of the city party committee and the city government and arrived at a most positive assessment of achievements accomplished in the Xiamen SEZ during the last few years.

Gu Mu said that Xiamen has developed very rapidly in the last 2 years and has effectively imported new technologies, new equipment, and successfully developed Chinese-foreign joint ventures, cooperative management, and foreign-financed enterprises; several of these projects started out at a high technical level. In the beginning it might not be possible to demand that operations be too advanced. Presently, there are some large-scale projects as well as many small projects, which is a condition that conforms to the proposal of the SEZ Conference, namely to have "precision, small-scale, light, and modern operations." In pursuing this path, the SEZ follows the right road, and also not at too slow a pace. If the pace were really too fast, it would not suit China's managerial level, its cadre strength, and its many other conditions.

Gu Mu presented the proposal that one of the considerations during the development of the Xiamen SEZ may possibly be to build up Xiamen into a pretty garden city, somewhat like Singapore. He said, Singapore is an old city, but with special characteristics, which also applies to the Yurong Industrial Estate, namely, that city buildings are not all clustered closely together, but that a sufficient number of green spots are interspersed between blocks of buildings. This is not only pleasing to the eye, but beneficial for an ecological balance and for the prevention of pollution. Xiamen possesses all the favorable preconditions to become a Singapore-style garden city.

Gu Mu pointed out that Xiamen should not only import from abroad, but also cooperate with units in the interior. It should cooperate with fraternal provinces and cities and provide facilities and favorable conditions for all provinces and cities by establishing lateral economic ties. Granting certain benefits to others would not only be right but also profitable. Disregard for moral principles at the prospect of profits is an attitude disapproved by the CPC, but it is not enough to act merely out of considerations of benevolence and on moral principles alone. This is something all cadres must understand, and the city must formulate a whole set of relevant policies. Proceeding in this manner would benefit everyone involved, and would also accelerate Xiamen's development, enabling it to truly assume the role of a "window," an export base, and a swinging door that opens both ways.

Gu Mu again stressed that conditions at Xiamen as a port city are excellent. Xiamen must become a port bustling with activities, a place flourishing in foreign and domestic trade. Some countries wish to use Xiamen as a refuelling

station; this is something that can indeed be achieved. Providing foreign vessels with fuel oil and providing food and lodgings for foreign sailors should bring about corresponding development in Xiamen's service facilities.

Finally Gu Mu expressed the hope that Xiamen will bring all its advantages into play and export even more products. He said that Xiamen's strength is not only the manufacture of household electric appliances, Xiamen's fruits, marine products, and other commodities are unavailable in the cold zones of the north. This advantage should be exploited by preserving and processing food for shipment to international markets.

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CSO: 4006/1146

FOREIGN TRADE AND INVESTMENT

PRC OFFICIAL ON NEW FOREIGN INVESTMENT LAWS

HK260223 Hong Kong SOUTH CHINA MORNING POST (BUSINESS POST) in English 26 Nov 86 p 1

[By Paul Sham]

[Text] China next year will promulgate more than 10 laws relating to foreign trade and investment, according to the director of China's Economic Legislation Research centre, Gu Ming.

He said China intended to establish a comprehensive legal framework for economic activities within the current 5-Year Plan. The new laws would cover cooperative joint ventures, special ventures, special economic zones [SEZ's], corporate law, securities, banking, bankruptcy, foreign trade, and maritime law. They would be among about 160 laws which the Central Government planned to enact next year in a move to expand foreign economic relations.

Mr Gu said the new laws would be backed up by reform in other economic areas, such as the separation of governmental administration from commercial enterprises. He said uncertainty over current laws--and in some cases the lack of laws--had necessitated new legislation, but the new legislation would not over-ride agreements already reached between China and overseas parties.

For instance, a joint venturer could choose to enjoy the longer tax exemption period under the new law, but ignore the new requirement of minimum paid-up capital.

Mr Gu said the new cooperative joint venture law would represent another major step in China's move to attract foreign investment. All joint ventures are now governed by the equity joint venture law, despite the fact that more than 4,100 of the 7,000 joint ventures established so far are cooperative joint ventures, he said.

Mr Gu said cooperative joint ventures, which provided foreign investment and technology while the Chinese partners provided the land and work force, were preferable to equity joint ventures because of China's shortage of foreign exchange and technology. He said as a result of the new law, China would attract more investment from Hong Kong, Macao, and Taiwan, because investors from those countries preferred small to medium-sized cooperative joint ventures.

Mr Gu said the planned SEZ's law revision had been prompted by the rapid development of the four zones. The existing law, based on the conditions in Guangdong province, had been found to be inadequate when applied to Xiamen, the one SEZ located out of the province.

He said it was likely China would set up more economic zones in other parts of the country, or some inland cities would adopt part of the SEZ system.

With regard to corporate law, Mr Gu said more emphasis would be placed on defining limited companies and shareholding enterprises and their rights and obligations, because of the trend towards new companies in these two categories instead of sole ownership or partnerships. He said the corporate law would be promulgated at the same time as the securities law and bankruptcy law to regulate fund-raising [words indistinct]. However, existing bonds and stocks would not be affected.

Mr Gu admitted the draft of the bankruptcy law had at one stage some opposition because of its conflict with the existing system, but said the revised version had won wide support from members of the legislative body.

The revised draft gave job protection to workers and absolved management personnel of responsibility if it was found a company's failure was beyond their control.

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CSO: 4020/441

FOREIGN TRADE AND INVESTMENT

PRC BUSINESSMEN ON SINO-JAPANESE ECONOMIC RELATIONS

HK181410 Beijing RENMIN RIBAO in Chinese 16 Nov 86 p 2

["Excerpts" of a speech by Yuan Geng (5913 1649), deputy managing director of the China Merchants Steam Navigation Company Group and chairman of the Shekou Industrial District Management Committee, at the 2d Sino-Japanese Economic Seminar sponsored by the general offices of RENMIN RIBAO and NIHON KEIZAI SHIMBUN: "China's Policy of Opening Up and Sino-Japanese Economic Relations"]

[Text] Thanks to the opening of the front door, the Chinese people have broadened their field of vision and washed away the [word indistinct] backward and conservative feudal ideas and other backward concepts. People have come to understand that only an open society can contribute to the emancipation of the people's intelligence and wisdom.

I am optimistic about the prospects for Sino-Japanese economic relations. However, there are indeed some problems which should be solved through the joint efforts of both parties.

With their diligence, shrewdness, and constant pursuit of benefit, many Japanese friends may be rated as first-rate businessmen, builders, and administrators. I said in 1984 that we should "take Japan as teachers" in economic and enterprise management. Over the past few years, we have made great efforts to do so in the Shekou industrial district although we have not learned it well.

Over the past 8 years, the China Merchants Steam Navigation Company, which is under my charge, has purchased and imported for cash \$1.3 billion worth of ships, equipment, materials, and technologies from your country, not including some \$900 million worth of equipment imported by the Shekou industrial district and Chiwan port from your country. This may account for an insignificant proportion of the trade between our two countries but it is not a small amount for an enterprise like ours. From one small clue one can see how things will develop. It has enabled us to perceive, and to worry about, the seriousness of the current Sino-Japanese trade imbalance.

Your country's huge trade surplus has become a topic of discussion in the world. The U.S. trade deficit with Japan topped \$50 billion last year. U.S. Finance Secretary James Baker complained that "this trade deficit is unacceptable politically and will ultimately be unacceptable economically." U.S. industrialist Lee Laccoca [preceding name as published in English] was even more straightforward when he said: For many years the Japanese trade measures have not been as fair as the United States believes. The Americans have begun to feel that they have been duped." No wonder that in a 92 votes to zero decision the U.S. Senate told President Reagan last year that, if Japan still refused to open its market to more American goods and to engage in fair business competition, it would be necessary to take retaliatory actions.

Even the United States, the richest country in the world, finds the trade deficit insupportable. The developing countries in the Third World, including China, naturally find it still harder to support the increasingly huge trade deficits.

Over the past few years, your country has had a trade surplus with most trade partners. The situation has worsened. I wondered if an excessive trade surplus was absolutely favorable to your country. Sure enough, less than 1 year later, the foreign exchange value of the Japanese yen against the American dollar was forced to rise by 50 percent. Perhaps this was not what your country's industrial and commercial circles had expected. When I saw that the skyrocketing exchange value of the Japanese yen had relatively weakened the competitiveness of the Japanese goods, I thought: It is high time the Japanese friends conscientiously examined their trade policies and measures.

The current huge trade and investment imbalance among various countries in the world is seriously threatening the development of world economy, pushing it toward recession. It has touched off various trade barriers and the rise of new trade protectionism. As far as the developing countries and regions are concerned, trade protection probably has its rationality. With their poor economic powers, they have to properly protect the infant national industries and domestic markets. Some people in the rich countries are trying hard to advocate trade protectionism. In essence, this is harmful to others, as well as to themselves. It also violates the principle of fairplay which they have always propagated and believed in. Since trade imbalance, in which benefits excessively tilt in one direction, can no longer be practiced and since the new trade protectionism is also contrary to the progress of human civilization, I think the only positive solution is to establish a new, mutually beneficial trade and economic relationship. I believe that farsighted entrepreneurs in our time will be much cleverer than our forefathers. They will not only consider how to dominate the market by bringing their strong points into full play but also put a lot of effort into studying how to create and open up new markets.

With its strong economic power, Japan can play an important role in the implementation of China's policy of opening up to the outside world. Will it be unfavorable to Japan if China is prosperous and powerful? I do not think there is any ground for entertaining such a misgiving. An economically developed China will be one with a such greater purchasing power and a neighbor more favorable to the Japanese economy. Will China become Japan's competitor? Judging from China's practical conditions, with its vast territory, large population, and huge internal demand, China still lags far behind Japan either in advanced fields of science, technology, and skills or in trade and merchandise. Therefore, it is still too early for China to become Japan's competitor. Mr Bo Yibo told some Japanese friends that it would not be possible for China to become Japan's competitor in 50 years. In a modern and highly evolving society, it is quite natural to advance together in competition. The concept that "once the apprentice learns the trade, the master worker will die of hunger" is outworn and ridiculous.

Some Japanese friends have pointed out that, due to various [words indistinct] such as quality, packaging, and delivery date, it is difficult for Chinese export products to enter the Japanese market. [word indistinct] of this situation, I have a bold proposal: With the support of both governments, people in the financial and industrial circles of our two countries can jointly work out a package plan for long-term cooperation under which, with investments from your country, as well as ours, we cooperate in fully utilizing China's rich labor and natural resources with advanced techniques and technologies from your country or other countries in the world to process and manufacture what Mr (Hossei Utsui) describes as "commonly used and competitive commodities" for your market. In this way we can satisfy the demands of your market and people, as well as increase our country's foreign exchange earnings. Your country can use the profits to engage in expanded reproduction and China can also use the increased payment capabilities to purchase your country's manufactured goods, technology, and equipment. As a consequence, a situation characterized by a benign cycle in economic and trade exchanges will appear before us.

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CSO: 4006/134

FOREIGN TRADE AND INVESTMENT

BANK DIRECTOR ON SINO-JAPANESE TRADE

HK181347 Beijing RENMIN RIBAO in Chinese 16 Nov 86 p 2

[Excerpts of speech by Cui Yanxu (1508 1693 4872), director of the Bank of China and vice president of the China Society of International Finance, at the 2d Sino-Japanese Economic Seminar sponsored by RENMIN RIBAO and NIHON KEIZAI SHIMBUN: "On Sino-Japanese Trade and Financial Problems"]

[Text] As we all know, China is a developing country which has been short of foreign exchange for a long time. China's relations with the international markets depend on China's ability to earn foreign exchange. China earns and also spends foreign exchange in her foreign trade, and the amount of foreign exchange she spends depends on the amount she earns. Our leader, Deng Xiaoping, said when he met a group of Japanese friends last year: "Only when a balance is maintained can Sino-Japanese trade be smoothly developed on a long-term basis," and "in international trade, one side may incur trade deficits for 1 or 2 years, but such trade relations will not be able to continue for a long time." I think that our Japanese friends can certainly understand the significance of these remarks.

The increasing trade deficit incurred by the Chinese side in Sino-Japanese trade has become an issue that has aroused more and more serious concern among people. The key to developing Sino-Japanese trade relations on a stable long-term basis is the substantial increase of imports from China by Japan. This would not only be favorable to the continuing development of trade between the two countries, but would also be favorable to the sustained and steady growth of both countries' economies.

The imbalance in Sino-Japanese trade is closely related to the economic structures and export structures of the two countries. Japan mainly exports manufactured goods and mechanical and electrical equipment to China, and such goods have a comparatively large additional value; while China mainly exports to Japan farm, sideline, and mineral products whose additional value is comparatively small. It is obvious that the contradiction cannot be solved in a short time. We do not require an absolute balance in Sino-Japanese trade and do not require that a balance be reached every year. However, through joint efforts by both sides, the contradiction should be mitigated, and it is possible to do so.

For China's part, we will adopt policies to develop export and will make efforts to improve the quality of export goods, adjust the product mix, and raise the competitiveness of our products. China has the resources and products which are needed by Japan, and this is the most important condition for expanding our exports. China's most apparent shortcoming is lack of knowledge about the international markets, including the Japanese market. The Chinese side will investigate more thoroughly and study the requirements of Japanese users and consumers in terms of quality, specifications, and packaging, will strengthen the development of new export goods so as to upgrade our export products and improve their quality, will improve the design and packing of these products, and will build up our transport capacity so as to satisfy the demands of the Japanese markets as soon as possible.

For Japan's part, it is our hope that you will also take measures to remove the man-made obstacles which affect the further development of our bilateral trade and lower the customs tariff, relax the quota control, and lift some unnecessary restrictions so as to create more favorable conditions for the entrance of Chinese goods into the Japanese market. At the same time, we also hope that you will help China expand her export capacity through increasing direct investment and technology transfer.

We are glad to see that both countries' governments and leaders have paid serious attention to the issue of trade imbalance. The two governments and the non-governmental quarters are making joint efforts on the principle of equality and mutual benefit and have taken a positive attitude on seeking ways and means to solve this issue. Prime Minister Nakasone has indicated on many occasions that he will personally look after the settlement of the problems concerning the imbalance in Sino-Japanese trade. We place high value on such a positive attitude for expanding Sino-Japanese trade. At the same time, we also hope that the problems will be solved as soon as possible.

When reviewing the development of trade and economic relations between China and Japan, people naturally think of the important role of friendly cooperation between the two countries' banking industries, which has definitely promoted the two countries' economic, trade, and technological cooperation.

In recent years, China and Japan have set up more and more joint ventures in the financial field, and they are actively expanding their business. The Bank of China, together with some other departments, has established a number of financial institutions on the basis of joint venture with some Japanese banks, which are located on the Chinese mainland or Hong Kong.

the future prospects of Sino-Japanese financial cooperation are inspiring, and there is a great potential to tap in our future cooperation. For example, both Chinese and Japanese banks are facing many new tasks in the promotion of present and long-term Sino-Japanese trade. In order to solve the issue of trade imbalance between the two countries, we are willing to join hands with our friends in Japanese banking circles, as well as in Japanese industrial and business circles, in studying ways to expand China's exports. It should be realized that an increase in China's export capacity would directly raise China's payment ability and would thus create favorable conditions for China to import more Japanese goods. This is in the interest of both countries.

FOREIGN TRADE AND INVESTMENT

OFFICIAL DISCUSSES BENEFITS FOR SERVICE TRADE

HK250245 Hong Kong SOUTH CHINA MORNING POST (BUSINESS POST) in English 25 Nov 86 p 3

[By Olivia Sin, "Recently in Beijing"]

[Text] Hotels and other service industries will not enjoy the same benefits as manufacturers under Beijing's new incentive package, says a senior Chinese foreign trade official, Chu Baotai. This is despite a strong request from hotel operators that their investment in China should receive the same status as that of export-oriented enterprises because both generate foreign exchange earnings.

Mr Chu, deputy director of foreign investment administration in the Ministry of Foreign Economic Relations and Trade (MOFERT), said that in a bid to attract high-technology and export-oriented industries, China had offered more generous terms under the new package.

Under the new rules enforced last month, exporters will have their profit tax halved, receive priority in using infrastructural facilities, and gain access to the Bank of China's credit facilities if they achieve a surplus in their foreign exchange accounts. However, the hotel and other service industries will not be accorded such benefits, although they will be given more autonomy in running their enterprises. They can also appeal to raise their charges.

Some hotel operators argue that they should be given similar treatment as the export-oriented firms because their services also help to generate hard currency.

The general manager of Swire China, Howard Young, stressed at a recent seminar in Beijing that manufacturers were not the only foreign exchange earners; the service sector also had a role to play.

In an interview with the SOUTH CHINA MORNING POST, Mr Chu admitted that the lack of high-technology and export-oriented foreign investment was due to inadequate incentives.

According to a study by MOFERT, half of the 2,300 joint ventures formed in 1979 and last year were property projects, including hotels and

office/apartment towers. Only a small percentage was manufacturing industries and high-technology projects.

"It has always been our country's policy to attract foreign investment which will raise our technical standard and boost our exports," said Mr Chu. "But we have not given enough incentives to high-technology and exporting industries. In fact, all sectors are given similar tax benefits."

For instance, all foreign investors were liable to pay a flat 15 percent profit tax in the four special economic zones, irrespective of the nature of their investment, he said.

Although the customs department had imposed a higher tax on imported materials for hotel projects since last year, the measure had not been effective in deterring property investment. More discriminatory measures were spelled out in the October package, by which China hopes to attract investment more in line with its policy aims.

Mr Chu is optimistic that more foreign funds will be channelled into the country as it improves its balance of payments position and relaxes credit controls.

China reported a 20 percent drop in foreign investment in the first half of this year. But Mr Chu said the declining trend had eased since August. Mr Chu said regulations describing how measures in the new package are to be implemented would be announced within the next few months.

However, those expecting a clearer definition of what is meant by high-technology may be disappointed. Mr Chu said this had already been defined in the October provisions.

High-technology enterprises were those "engaged in developing new products, upgrading the standard of existing products to increase the ability to earn foreign exchange, or engaged in import substitution."

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CSO: 4020/441

FOREIGN TRADE AND INVESTMENT

INDUSTRIAL TECHNOLOGY EXPORT ENCOURAGED

OW200551 Beijing Domestic Service in Mandarin 0900 17 Nov 86

[Text] According to JINGJI CANKAO [ECONOMIC REFERENCE] report, the State Council recently has given written instructions about a report on technology exports, submitted by the Ministry of Foreign Economic Relations and Trade and the State Scientific and Technological Commission.

In its instructions, the State Council called on the departments concerned to take necessary measures to encourage technology exports after improving overall management and harmonizing relations between various quarters.

The Ministry of Foreign Economic Relations and Trade and the State Scientific and Technological Commission pointed out in the report: The stress of our technology exports should be put on industrial technology. We have many technologies of this category, and the time for exporting them is ripe. Moreover, their export will promote that of more industrial products. We should encourage the export of these technologies as long as it does not hurt our national security and major economic and political interests, and does not adversely affect our export commodity market. However, we should assume a prudent attitude to the export of laboratory techniques, new scientific research findings, and new inventions. We should consider the confidentiality of the new techniques, while taking into account the possibility of domestic development. In principle, we should first develop technology at home, if we can develop it there, turn it into industrial products for export, and protect its confidentiality. In order to protect export technologies, we should apply for patents abroad in good time for those technologies qualified for patenting. We should sign contracts as the primary way to protect our exclusive technologies and technological secrets.

On the procedures for examining and approving technology export requests, the report proposed that they be handled by the departments in charge at various levels, and submitted to higher authority through the command channel.

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CSO: 4006/124

FOREIGN TRADE AND INVESTMENT

PRC TO EXPORT 10 MILLION TONS OF COAL IN 1986

OW251128 Beijing XINHUA in English 1124 GMT 25 Nov 86

[Text] Beijing, 25 November (XINHUA)--China expects to export 10 million tons of coal by the end of this year, Chen Dun, coal industry vice-minister, said today.

According to Chen, the country has already exported 8.22 million tons this year.

Coal exports are "very small compared to China's annual coal output volume of more than 800 million," he said. "But they bring in foreign exchange that we can use for advanced technology and equipment that we badly need."

For years, said Chen, growing domestic demand has limited China's coal exports. But now, he said, rapid production development is making increasing amounts of coal available for sale overseas.

Government officials say China exported 7.5 million tons of coal in 1985 to Japan, Korea, Hong Kong, the Philippines, and Western Europe. And they plan to increase the exports to 30 million tons in 1990.

Chen said the coal ministry will switch its focus in 1987 from increasing production volume to increasing coal quality.

"We've started to build facilities specifically geared to producing coal for export," he said.

At the same time, the government has been constructing new coal wharves designed to facilitate shipping abroad. Already operating are the wharves at Shijiu, with berths for 100,000 ton class ships, and Qinhuangdao, with berths for 50,000 ton class vessels.

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CSO: 4020/441

FOREIGN TRADE AND INVESTMENT

BRIEFS

BETTER INVESTMENT ENVIRONMENT--Two years ago, the party Central Committee and the State Council decided to further open the 14 coastal cities and to build development zones. During the past two years, many things have been done in those development zones, and we have made some progress in attracting foreign business investment. However, we see that comrades in some localities consider creating a favorable environment for investment to be merely providing good working conditions and living facilities. They do not attach due importance to raising management levels and work efficiency or to perfecting various laws and regulations. The Tianjin Development Zone has weighed the advantages and disadvantages of working to attract foreign capital to our country's development zones, and has taken concrete steps to adopt the good things and eliminate the undesirable things. The Tianjin Development Zone has achieved good results. Various localities can learn from the experience of the Tianjin Development Zone to create through solid, practical work, a truly favorable environment for foreign investors in order to speed up the pace of construction of our country's development zones. [Station commentary: "It Is Necessary To Do Some Practical Things To Create A Good Investment Environment For Foreign Investors"] [Text] [Beijing Domestic Service in Mandarin 1200 GMT 10 Nov 86 OW] /12913

TIANJIN EXPORT ACHIEVEMENTS--As of the end of September, Tianjin Municipality exported commodities worth \$920 million and scored a 12.8 percent increase over the figure of the corresponding 1985 period. The six company branches in the municipality in charge of exporting commodities of handcraft articles, foodstuffs, garments, indigenous products, metals, minerals, and the chemical industry, have fulfilled their annual export plans by more than 90 percent. The variety of export commodities has also increased day by day. During the January-September period this year, the supply of export goods surpassed the figure for the corresponding 1985 period by 29.3 percent. [Excerpt] [Tianjin City Service in Mandarin 2300 GMT 9 Oct 86 SK] /12913

TEXTILE EXPORTS--Shenzhen, 20 Nov (XINHUA)--Addressing a meeting of the board of directors of the Hualian Textile Limited Company of China in Shenzhen a few days ago, Minister of Textile Industry Wu Wenying said: Regarding China's textile exports, we must change the traditional concept of "winning victory with quality," upgrade quality, and increase the proportion of highly finished export products. Exports of Chinese textile products have been increasing rapidly in the past few years. In 1985 China's textile exports, including silk, satin, and garments, were worth US\$6.4 billion. The value is expected

to reach US\$7 billion this year. Wu Wenying pointed out: The textile industry should try to effect "two changes" as soon as possible. That is, it should change from mainly exporting primary products to mainly exporting finished products and from mainly exporting roughly processed products to mainly exporting finely processed products. During the Seventh 5-Year Plan period the state will concentrate on building 12 textile products exporting zones in Guangzhou, Foshan, Dalian, Shanghai, Qingdao, Tianjin, Suzhou, Wuxi, Changzhou, Nantong, Hangzhou, and Beijing. It will also form export groups through lateral association in order to allow collectives to play their role in handling end products and increasing exports of such products as fashionable dresses, woolen garments, sportswear, and textile decorations. [Excerpts] [Beijing XINHUA Domestic Service in Chinese 1251 GMT 20 Nov 86 OW] /12913

TECHNOLOGY EXPORTS TO BE BOOSTED--Beijing, 18 November (XINHUA)--The Ministry of Foreign Economic Relations and Trade and the State Science and Technology Commission have decided to boost China's exports of technology, focusing on items connected with industry, officials said. Industrial technology exports should be encouraged since China has many such items which can be exported and this can promote the export of industrial products, said officials from the Ministry of Foreign Economic Relations and Trade. However, technology exports should not infringe upon the country's security or its vital economic and political interests, the officials added. They said a prudent attitude should be taken when laboratory technology, new scientific research achievements and new inventions are exported. [Text] [Beijing XINHUA in English 0838 GMT 18 Nov 86 OW] /12913

PRC BORROWS \$3 BILLION--Beijing, 20 November (XINHUA)--China borrowed intermediate and long-term loans worth US\$3 billion in the first nine months of this year, according to today's overseas edition of the PEOPLE'S DAILY. "Total loans from foreign countries are expected to reach US\$5 billion by the end of this year, doubling the figure for 1985," according to the State Planning Commission. "These loans, together with funds raised at home, have been used in the construction of China's key energy and transportation and technology upgrading projects over the past few years," the paper said. Designated as key projects are some new railways, ports, the Shanghai Baoshan Iron and Steel Complex and the Daqing Petrochemical Works. Seven coal mines built with loans from Japan have already been put into operation, according to the paper. China has concluded loan agreements with 14 countries including Kuwait, Italy, Britain, France, the Federal Republic of Germany and Denmark. With loans from these countries, China has imported equipment to build, among other projects, a power plant, a cement factory, an airport and a dairy. [Text] [Beijing XINHUA in English 1032 GMT 20 Nov 86 OW] /12913

JOINT VENTURES RECEIVE CERTIFICATES--Beijing, 20 November (XINHUA)--Twenty four Sino-foreign joint ventures in Beijing today received certificates acknowledging them being export-oriented or technically advanced. Such certificates were offered at a meeting by Chen Xitong and Zhang Jianmin, mayor and vice-mayor of Beijing. There are now 172 Sino-foreign joint ventures in Beijing, with funds totaling US\$2.05 billion, of which 950 million come from foreign entrepreneurs. Zhang Ming, vice-chairman of the Municipal Commission for Foreign Economic Relations and Trade, said at the meeting that the acknowledgement was made according to the standards set by the state council's

22-article provisions to encourage foreign investment published last month. He said the 24 enterprises will enjoy preferential treatment stipulated in the provisions. But, he warned, these enterprises will still be examined step by step. If they are found below the standards of being export-oriented or technically advanced, "privileges will be taken away, and preferential funds they have enjoyed will be cancelled," Zhang said. [Text] [Beijing XINHUA in English 1640 GMT 20 Nov 86 OW] /12913

CONTROL OF MACHINERY IMPORTS URGED--Beijing, 22 November (XINHUA)--Administrative departments must take measures to strictly control imports of machinery and electrical apparatus, a senior Chinese official said here today. Zhu Rongji, vice-minister of the State Economic Commission, said in an interview with XINHUA that the import of machinery and electrical apparatus came to US\$17.8 billion last year, accounting for 42 percent of the nation's total imports. He added that the volume of such imports reached US\$8.8 billion in the first half of this year, bringing the proportion even higher. As a result of the unchecked import and unnecessary duplication of imports for some machinery, their production capacity has surpassed the needs of the market. Moreover, the supply of raw materials which is already short has become even worse, and products are being overstocked. "We should mainly import advanced technology and some key equipment that is badly needed," he said, adding that "imports will be banned for all those types of machinery that we can make ourselves." [Text] [Beijing XINHUA in English 0859 GMT 22 Nov 86 OW] /12913

SOVIETS WELCOME XINJIANG PRODUCTS--China's Xinjiang Uygur Autonomous Region Trading Organization and the Soviet Union's V/O Dalintorg [All Union Far East Trading Organization] recently held their first trade exhibition in Alma Ata, the capital of Soviet Kazakhstan. The Soviet side accepted over 90 percent of Xinjiang's exhibited goods that included household chemical products, household electrical appliances, carpets, handicrafts, textile goods, various clothing and footwear items, livestock products, foodstuffs, light industrial and electronic products. Both sides jointly signed contracts to import commodities totalling a value of 4.8 million Swiss francs [approximately \$2.8 million]. [Text] [Beijing ZHONGGUO SHANGYE BAO in Chinese 8 Nov 86 p 1]

CSO: 4006/136

SPECIAL ECONOMIC ZONES

STRENGTHENING CREDIT MANAGEMENT IN SHENZHEN

Beijing NONGCUN JINRONG [RURAL FINANCE] in Chinese No 6, 16 Mar 86 pp 25-26

[Article by An Yangdong [1344 0111 2639]: "Problems in Credit Management in Shenzhen"]

[Text] Li Hao [2621 3493], Shenzhen's new mayor, says, "To improve its standard of management, Shenzhen must pay full attention to reviewing experience, go in for in-depth reform, and further straighten out the relations with the outside and the interior, all the while maintaining a higher rate of growth than the mainland. It must strengthen management and improve efficiency."

- the editor

The Agricultural Bank has played a vital role in supporting the development of Shenzhen, China's first special economic zone [SEZ]. In 1979, when the bank was reestablished, the predecessor of its Shenzhen branch--the Poan County branch--had only 18.2 million yuan in credit. In 1982, lending by the Shenzhen branch burst through the 100 million yuan barrier. Subsequently credit expanded rapidly, reaching 1.32 billion yuan in 1984. By the end of October, 1985, credit was still a high 1.21 billion yuan. That at a time when the scale of lending was being curbed. In accordance with the spirit put forward by the Shenzhen municipal government--transform the countryside into cities, peasants into workers, the focus of lending has been shifting from agriculture to industry and commerce. In 1979, industrial and commercial credit reached 12.23 million yuan, or 67.2 percent of total credit. In late 1984, industrial and commercial credit totaled 960 million yuan, a 77-fold increase over 1979, or 73.3 percent of total credit for the year. In addition, a considerable part of agricultural credit went to finance industrial and commercial projects operated by agriculture. As of late October last year, industrial and commercial credit still amounted to 890 million yuan, 74.2 percent of total credit. Following the infusion of credit funds, great progress has been made in the development of the SEZ. According to incomplete data, there were 1,902 registered commercial enterprises in Shenzhen in 1983, rising to 4,070 in 1984 and by another 1,567 in the first half of 1985. Government revenues also went up year after year, climbing almost 300 percent in 1984 compared with 1981.

Shenzhen has been developed under the guidance of the central government's SEZ policies. Commercial credit has special significance for the zone's ability to make full use of its geographical advantages, develop trade, industry, and agriculture comprehensively, give pride of place to trade, import foreign capital and technology, and cooperate with the interior. But a number of problems remain in Shenzhen's rural commercial credit work:

1. There is an absence of systematic research on commercial credit work in the SEZ and specific policy guidance from the higher authorities. When they carry out credit management, the departments concerned rarely consider the SEZ's special conditions. They do not coordinate their actions with one another at different levels and are long on inspection and short on guidance. Credit personnel, exhausted from dealing with them, have little time for day-to-day work. Since departments offer little in the way of specific policy guidance, credit personnel are at a loss as to what to do in their work; they have no policy on which to base their words and actions.

2. Credit personnel are small in number and poor in quality. The standard of credit management is not compatible with Shenzhen's level of economic development. At some banks and other institutions, credit personnel make up less than 5 percent of total personnel. The number of commercial credit personnel is even more meager and their professional quality is highly uneven. Most of them are new to the job. Others have switched to commercial credit from agricultural credit. Add the large number of new problems and new demands of commercial credit in the SEZ, and you have a group of comrades, old and new, who feel they are not up to their task.

3. The credit business in the SEZ is highly competitive and the Agriculture Bank is not as well funded as others. Last year the Shenzhen Agricultural Bank aimed to reduce bad loans and lending by 410 million and 260 million yuan, respectively, and increase deposits by 150 million yuan. In the first half of 1985, it managed to reduce lending by only 56.78 million yuan, at the same time losing many customers and large enterprise deposits. By late October 1985, enterprise deposits had fallen by 70 million yuan. Moreover, deposits transferred from credit cooperatives dropped 120 million yuan. Not only was the target of cutting bad loans unfulfilled, but the gap between what it gave out in loans and what it absorbed in deposits actually widened by over 60 million yuan. It also ran up 100 million yuan of debts to other banks. Nor did the issue of bonds go smoothly. With these constraints on its credit fund sources, the bank had little room to maneuver in developing its credit business.

4. Among products made by enterprises that have borrowed from the bank, an astonishingly significant part is of dubious value, so that these enterprises have no materials to act as security for commercial circulating loans. According to a survey by the Shenzhen municipality on 13 commercial enterprises, a mere 8.8 percent of their goods in stock sold well, 26.9 percent fared indifferently, and as much as 65.3 percent were duds. Many questions remain about the process in which suspect merchandise is purchased. Sometimes cases are intertwined. The Hainandao auto import case, for instance, has ramifications for Shenzhen: the Hainandao Petrochemical Corporation alone owes the Agricultural Bank 44 million yuan. But the cars

cannot be used to guarantee loans until after the auto case is resolved. There are other unsecured loans, resulting in questionable funds. The sales department in Nantou district, which is part of the Shenzhen branch of the Agricultural Bank, has done a study on 10 commercial enterprises that had borrowed a total of 56.31 million yuan in commercial circulating loans as of late June last year, including 39.76 million from the Agricultural Bank. In the same period, they had only 31.47 million yuan worth of goods and materials as collateral for their loans. In other words, 44 percent of their loans were unsecured.

5. The exact policy limits of relevant commercial credit work in the SEZ needs to be further clarified. Take the enterprises' internal funds, for instance. Many Shenzhen commercial enterprises borrow from different sources. It is hard to determine the amount of their internal funds, and the number is simply too unreliable. Another example involves loans for capital construction and fixed assets. About half of the Shenzhen branch's lending is used as investments in capital construction and fixed assets. Yet if we examine the way in which the funds are used, a considerable part of these investments differ in essence from development projects. In a process comparable to a factory manufacturing industrial products and then sells them, the investment is recouped and profits generated within a short period of time. This kind of loan is similar to credit financing production costs. On the other hand, if we look at the nature of the project, it no doubt belongs to capital construction. In other words, there is a split between its fund nature and project nature. If the project enjoys good sales, the fund turnover will also be rapid, whereas the funds for purchasing commercial real estate and fixed assets can be repaid several times as the value of fixed assets gradually changes. In these instances, the loans are essentially like loans for fixed assets.

There is also confusion in the SEZ about the uses of different kinds of loans. The scope, direction, and contents of loans for fixed assets investments and development are ill-defined and the sources of funds are uncertain. Real estate loans and loans for infrastructural projects all come from commercial loans and are listed under the category of other state-owned commercial projects. The disadvantage is that category and contents are not consistent with each other and figures are muddled.

To support the development of the zone even more effectively and make better use of the Agricultural Bank, we must strengthen credit management, raise funds, manage credit funds properly, use them to good effect, and increase the economic benefits of loans.

1. Connect the management and guidance of credit work at various levels so that the guidance of credit policies, the management of credit funds, and the inspection of their use become a coherent whole. On that basis, the departments in charge, taking into account the SEZ's special circumstances, should consider and formulate a set of credit policies, particularly the policy limits of commercial credit, suited to the zone within the framework of national policy consistency. Everything should be done to ready ourselves for problems.

2. Classify use categories properly in accordance with the nature of the use of funds. Consideration may be given to incorporating loans for infrastructural projects into SEZ development loans for independent management and incorporating loans for commercial real estate, which are a form of production costs, into SEZ fixed assets loans, as distinct from regular fixed assets loans and commercial circulating loans. Loans for purchasing commercial real estate should be handled in the same way as fixed assets loans.

3. The forms of credit must be further diversified and made more flexible. Lending on credit should continue to be available to single, permanent enterprises which good credit, a long-term credit relationship, and a substantial portion of verifiable internal funds. Lending to other enterprises should essentially take the form of secured or guaranteed loans. Other forms that may be used are loans secured with cash, partly mortgaged loans, and . Legal devices such as the contract and notarization should be fully used to ensure the security of credit funds.

4. Functional agencies are too weak. That must be changed. Learning from the organizational setup of other banks and foreign banks and using them as our reference, we should beef up credit departments and increase their responsibilities to meet the demand of developing a financial sector in the SEZ.

6. [as published] Step up the training of the contingent of credit personnel and improve their quality.

12581

CSO: 4006/1022

LABOR AND WAGES

JINGJI RIBAO NOTES TECHNICIAN DISTRIBUTION CENTER

OW111146 Beijing XINHUA in English 1138 GMT 11 Nov 86

[Text] Beijing, 11 Nov (XINHUA)--Beijing has set up its first consultation center to assist enterprises in redistributing technicians, ECONOMIC DAILY reported today.

According to the report, since the center was set up last July, it has received over 600 technicians from 90 enterprises here in the capital.

The center has filed materials on over 100 technicians who want to change jobs, and has received requests from enterprises for technicians specializing in more than 40 types of production work, the report said.

"Currently, technicians do not choose their jobs but are assigned a position, and many of them do not get jobs in their speciality," the report noted, adding that because of enterprise diversification in recent years, some need additional technicians to develop new products while others are overstaffed.

"The center has been set up to solve personnel problems, and this October, 14 technicians were temporarily exchanged among five enterprises, with all sides expressing satisfaction with the center's services," the report added.

This month, the center will hold an open conference, where technicians wanting to change jobs can talk directly to interested enterprises, and presently the center offers free consultations, the daily reported.

/9738
CSO: 4020/49

LABOR AND WAGES

TAIYUAN FACTORIES ORGANIZED TO HIRE DISABLED

OWO20958 Beijing XINHUA in English 0647 GMT 2 Nov 86

[Text] Taiyuan, 2 November (XINHUA)--Nearly all the disabled who can still work have been employed in suitable jobs in Taiyuan, capital of north China's Shanxi Province.

According to an official from the local Civil Affairs Department, "the city has set up 102 welfare factories and workshops with a total employment of 5,421."

Last year the factories' total industrial output value amounted to 25 million yuan (6.7 million U.S. dollars), 88 percent higher than that of 1983.

"A welfare industrial production network is taking shape in the city," he said, "and their products supply dozens of areas including machine-building, light industry, textiles, printing, electronics, and arts and crafts."

"Some products have been awarded provincial and municipal quality awards and some have been exported," the official noted.

The welfare factories are run by local governments as well as by enterprises, neighborhood committees and individuals.

The government encourages the departments of civil affairs, taxation, goods and materials, and banks to provide preferential treatment to these factories.

Newly-established welfare factories will not turn over their profits to the state for future development during their initial period, a government official said.

/12232

CSO: 4020/48

LABOR AND WAGES

BRIEFS

WORKERS UNDER 35--Beijing, 8 November (XINHUA)--China now has 120 million employees and 70 percent of them are under 35, according to the PEOPLE'S DAILY today. A national survey, sponsored by the All-China Federation of Trade Unions, shows that 98 percent of the workers were employed after the People's Republic of China was founded in 1949, when China had 8 million workers. The number of female employees has increased to 43 million, one-third of the total, from 610,000 in 1949, the paper added. Workers in state-run enterprises and institutions make up 73 percent of the total number and those in collective-owned enterprises make up 26 percent of the total, the survey reveals. Ideological and attitudinal data, broken down by age group, was also included in the 3-month survey starting last March, according to the paper. [Text] [Beijing XINHUA in English 1213 GMT 8 Nov 86 OW] /12232

CSO: 4020/48

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30 DECEMBER 1986

China Report

ECONOMIC AFFAIRS



FOREIGN BROADCAST INFORMATION SERVICE

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30 DECEMBER 1986

CHINA REPORT

ECONOMIC AFFAIRS

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NATIONAL POLICY AND ISSUES

GOVERNMENT TO USE FOREIGN EXPERIENCE TO ENACT ECONOMIC LAWS

HK280835 Hong Kong ZHONGGUO TONGXUN SHE in Chinese 0822 GMT 26 Nov 86

[Text] Exchanges between Chinese and Western laws and drawing on each other's experience have become a distinguishing feature of our time. In enacting laws, China will use for reference or absorb the strong points of other countries and regions in legislation. Hong Kong's open policy, free port, and tax system can be used by China's special economic zones; its banking regulations, company law, anti-monopoly law, and relevant laws and decrees on commodity and economy can also be used for reference.

The remark was made by Gu Ming, director of the Economic Legislation Research Center of the State Council, at a meeting yesterday with Liu Gushu, general manager of the China Patent Agent (Hong Kong) Co., Ltd., and Chen Yingliang, director of the Economics and Law Publishing House.

Gu Ming said: Since the sixties, the Hong Kong economy has developed rapidly. It has numerous successful experiences which the mainland should absorb. Some of its policies, statutes, and regulations are particularly worth learning. Other laws and regulations, such as the training of competent people, consultant services, and export credit insurance, can also be selected and implemented in light of the practical conditions on the mainland. He believed that exchanges between Hong Kong and the mainland in this respect will be more frequent.

Gu Ming said: Since the implementation of the policy of opening up, China's economic growth rate has leapt to first place in the Asia and Pacific region. Eastern and Western countries are very much interested in China's achievements. The leaders of 35 countries visited China last year and there will be more this year. Meanwhile, the leading figures of the Soviet Union and East European countries have also visited China on different occasions. This shows that China's economic growth rate has become the focus of world attention. The problem now is how to speed up the pace of perfecting economic legislation relating to foreign businesses, improve the investment climate, and attract more foreign technology, capital, and managerial expertise to ensure smooth economic development. To this end, China is energetically drafting the relevant statutes and regulations, such as the bankruptcy law, the law on Sino-foreign cooperative enterprises, the law on China's special economic zone, the company law, the maritime law, China's foreign trade law, the commercial papers law, the bank law, and the customs house law. They are expected to be examined and approved next year.

NATIONAL POLICY AND ISSUES

JOURNAL ARTICLE ON REFORM OF OWNERSHIP SYSTEM

HK160541 Beijing JINGJI YANJIU in Chinese No 9, 20 Sep 86 pp 32-38

[Article by Song Yangyan [1345 7402 8827] and Wang Haidong [3769 3189 2639] of the graduate school of the Chinese Academy of Social Sciences: "Ownership—the Difficulty of the Economic Reform and the Way Out"—written in June 1986]

[Text] Reform of the ownership system is the most difficult problem to tackle in our economic reform, and seeking a breakthrough in the reform of ownership is our only way out.

I. The Necessity and the Pressing Nature of the Reform of the Ownership System

A heated debate between two lines of thought has been going on ever since China started reforming its economic structure. One line of thought sees the ownership system as the core of the economic reform while the other is convinced that the question of ownership can be bypassed.

In order to understand the necessity of the reform of the ownership system, we must first understand the structure that our economic reform is targeted at. The target of our economic reform is fourfold. First, to effect a change in the operating mechanism. This includes two interrelated and mutually conditioning concrete goals: 1) To enlarge the decisionmaking power of enterprises; and 2) to change the management of enterprises by the state from mainly direct to mainly indirect control. Second, to put economic parameters in their proper perspectives. This includes five interrelated and mutually conditioning concrete goals: 1) Price reform; 2) wage reform; 3) tax reform; 4) interest rate reform; and 5) exchange rate reform. Third, to establish a market system and make it more perfect. This includes four interrelated and mutually conditioning specific goals: 1) The further improvement of the consumer goods market; 2) the establishment of a means of production market (which includes the material market, technology market, land market, housing market and equipment leasing market); 3) the establishment of a capital market (which includes the interbank lending market, bonds market, stock market and foreign exchange market); and 4) the establishment and perfection of a labor market. Fourth, to change the relations of

ownership. This includes three interrelated and mutually conditioning specific goals: 1) the readjustment of the ownership structure; 2) the selection of the form of ownership; and 3) the application of policies as regards ownership.

The so-called targeted structure to be achieved through economic reform is an organic entity made up of the fourfold target and each of the specific goals that are embraced in the targets at each level. Seen in terms of the targeted structure, the economic reform has not just one target but a series of targets. These targets are not arranged at random. Rather, they have their internal links which are independent of man's will.

In the targeted structure, there exist two different kinds of ties. In terms of the whole structure, there are vertical ties of dependence which extend from the top down. The target at the first level is dependent on that of the second, the target at the second level is dependent on that of the third, and the target at the third level is dependent on that of the fourth. At each level, there exist mutually regulatory lateral ties of dependence. Thus, it is necessary to pay attention to achieving a good coordination between these two aspects in the economic reform. On the one hand, we must pay attention to achieving better coordination between different targets of reform at different levels. This can directly affect the overall situation of the economic reform and may be called "general coordination" for short. On the other hand, we must pay attention to achieving better coordination between the specific goals of reform at the same level. This can directly affect local areas of the economic reform and may be called "small coordination."

The necessity of the reform of the ownership system is determined by the vertical ties of dependence between various targets of reform. A salient problem of our economic reform is the lack of coordination between the targets of reform. While problems of "small coordination" are indeed present, the most serious of our problems arise from matters of "general coordination." The following are some of the concrete manifestations:

1. The irrational nature of the economic parameters has restricted the change of operating mechanisms.

China's economic reform began with the change of economic operating mechanisms. In order to cast off the operating mechanisms of the conventional structure, the state has simplified its administrative procedures and given the enterprises a fair amount of decisionmaking power. On the other hand, it has readjusted the system of macroeconomic management and gradually reduced mandatory planning and administrative intervention in favor of guidance planning and the application of economic and legal means. However, as the operating mechanisms slowly changed, the contradiction between microeconomic flexibility and macroeconomic control grew more and more acute. The loss of macroeconomic balance at the end of 1984 was actually the produce of such a contradiction. The contradiction between microeconomic flexibility and macroeconomic control has created a real dilemma for the work of changing the operating mechanisms. What is the cause of such a contradiction? It is quite

obvious that the problem lies not in our taking the change of operating mechanisms as the primary target of reform but in our failure to pay due attention to the more profound target, that of putting the economic parameters in their proper perspectives. The rationality of the economic parameters is the decisive factor in the change of operating mechanisms. In the new mode of economic operations, economic parameters shall play a dual role: To give impetus to enterprises and ensure the full utilization and rational allocation of resources on the one hand, and to provide the state with the means of macroeconomic control with a view to ensuring the smooth realization of the objectives of macroeconomic control on the other. However, this role of economic parameters can only be realized when the economic parameters themselves can accurately reflect the supply-demand relations in the market and have embodied the principle of competition on an equal footing. Because the economic parameters afforded by the conventional structure do not measure up to the above-mentioned characteristics, contradiction arose between microeconomic flexibility and macroeconomic control once changes were made in the operating mechanisms.

2. The fact that a market system has not yet taken shape has restricted the work of putting economic parameters in their proper perspectives.

Although we have not attached sufficient importance to the work of putting economic parameters in their proper perspectives, work in this respect has in fact been going on step by step ever since the economic reform began. Examples of this include the replacement of profit delivery by tax payments, the readjustment of prices for agricultural and sideline products, the introduction of a double price for the means of production, the readjustment of interest, exchange and tax rates, the restructuring of taxation and wage reform. However, work in these respects has not produced notable results. The irrationality of economic parameters remains basically unchanged and has in fact worsened in some respects. For example, the wage reform, which was designed to change the practice of "eating from the same big pot" prevailing in the relations of the enterprises to the state and in those of the workers and staff members to their enterprises, has strengthened the tie-pulling mechanism between enterprises and between the workers and staff members themselves. While the aim of the price reform was to provide the enterprises with an external environment where they can compete with each other on an equal footing, some enterprises were able to make a fortune by cashing in on their monopoly and engaging in profiteering. The fundamental reason why economic parameters have not been put in their proper perspectives is that a complete and competitive market system has not yet taken shape. An important criterion for judging the rationality of the economic parameters is to see whether or not they can bring about the full utilization and rational allocation of resources, both of which are preconditioned by the free movement of resources. It is only within a complete and competitive market system that the free movement of resources is possible. Thus, the work of putting the economic parameters in their proper perspectives and the establishment of a market system must go hand in hand. In our actual reform, however, the latter task lagged far behind the first. Prior to the reform, China had a far from

perfect consumer goods market. Since the reform, efforts have been made to establish a means of production market, a capital market, and a labor market. However, these markets have not reached maturity and strictly speaking cannot be called markets as such. On the other hand, because the scale of these markets is too small, their functions as markets are severely restricted. Thus, a complete and competitive market system is not present at this stage, and such a market system is precisely the decisive factor in the work of putting the economic parameters in their proper perspectives.

3. The sluggish progress of the reform of the ownership system has restricted the establishment of a market system.

While our failure to attain the goal of establishing a market system has a lot to do with the fact that we have not attached sufficient importance to this target of reform, a more important reason may be the sluggish progress of the reform of the ownership system. Since the commencement of economic restructuring, we have made two accomplishments in the reform of the ownership system. First, we have readjusted the structure of ownership and relatively increased the proportions of ownership other than ownership by the whole people. Second, we have reformed the conventional system of collective ownership and turned the unitary system of collective ownership into a system of ownership which combined the interests of the collective and the individuals. What we meant by the progress of ownership being sluggish mainly refers to the sluggishness of the reform of the system of ownership by the whole people. The conventional system of ownership by the whole people is a unitary system of state ownership. Because all the resources of enterprises owned by the whole people belong to the state, the enterprises are not in a position to organize the lateral flow of resources in accordance with market needs. Thus, it is very difficult for a means of production market, capital market, or labor market to develop within the system of ownership by the whole people. And such a state of affairs has restricted the development of these markets in society as a whole. The presence of the conventional system of ownership by the whole people is the decisive factor in the establishment of a complete and competitive market system.

The situation described above has borne out the fact that the lack of coordination between the targets of reform at different levels, particularly the sluggishness of the reform of the ownership system, is the main factor restructuring the progress of our economic restructuring.

II. The Correct Direction for the Reform of the Ownership System

Ownership by the whole people should be the dominant form of ownership in the future, but this must not be the conventional form of ownership by the whole people. Thus, the issue to be addressed in finding the correct direction for the reform of ownership is how to reform the conventional system of ownership by the whole people. We can grasp the correct direction for reforming the ownership system in the following four ways:

1. The trend of development of the ownership system in the present age.

At present, a common trend is seen in the development of public as well as private ownership: The unified form of ownership is gradually giving way to a dual or even multiple form of ownership. The basic indication of this is the emergence and rapid growth of shareholding. As far as the capitalist countries are concerned, shareholding is something which has been in existence since the era of liberal capitalism. Upon entering the era of monopoly capitalism, shareholding has seen rapid development and is slowly becoming a dominant form of ownership. In the socialist countries, shareholding usually made its first appearance in the realm of external economic dealings, such as in enterprises jointly set up with domestic and foreign funds. In recent years, however, shareholding has penetrated into the domestic economic realm following the implementation of economic reforms in the socialist countries. This phenomenon is particularly evident in our country and has demonstrated its great vitality before other forms of ownership. Why is it that the share system has appeared at this particular time? We have to seek our answer from the characteristics of the modern productive forces. Modern productive forces have two special features: 1) The scale of investment is ever growing. Some people think that the trend of development of modern productive forces is toward smaller enterprises. This is not an all-round view. True, there is a tendency toward more compact scales in certain trades, but for the leading sectors or the majority of trades, the basic trend is still one of extensive operation. 2) The risks of investment are ever increasing. There are two basic reasons for the continuous increase of investment risks, the first being the rapid advancement of technology and the second being the rapid changes in demand. These two special features of modern productive forces are bound to result in the diversification of the investment body. Shareholding is a form of ownership which meets the needs of the objective trend of the diversification of the investment body. The emergence of the share system is independent of any given social system, but as social systems differ, so do the directions of development of the share system. In the capitalist countries, the share system mainly develops along the direction of private shareholding; in the socialist countries, it mainly develops in the direction of public shareholding.

2. The intrinsic contradiction of the conventional system of ownership by the whole people.

The conventional system of ownership by the whole people is a unitary form of state ownership. This is something decided by the historical process of the formation of enterprises owned by the whole people. In China, enterprises owned by the whole people were in the past set up in two ways: The expropriation of capitalists by the state (including the direct expropriation of bureaucrat capital and the socialist transformation of capitalist industry and commerce) and direct investment by the state. Regardless of how they came about, the property of enterprises owned by the whole people belongs to the state. Thus, the state naturally becomes the sole owner of enterprises owned by the whole people. As these enterprises develop further and further, the contradiction inherent in the conventional system of ownership by the whole people also grows. The conventional system of ownership by the whole people only recognizes state ownership over the property of enterprises and

does not recognize that the workers and staff members of enterprises also have a claim to this property. This is contradictory to the concept of ownership by the whole people. However, in the initial stage of the setting up of enterprises owned by the whole people, the contradiction between this concept and reality was not obvious because at that time the workers and staff members were merely the recipients, not the providers or creators, of the property of their enterprises. They did not have sufficient grounds to claim ownership of the property of enterprises. However, this situation soon underwent a great change. Marx once pointed out in "Das Kapital" that even under conditions of simple reproduction, all prepaid capital, regardless of its source, will invariably turn into accumulated capital or capitalized surplus value. These words of Marx' revealed the contradiction between the right and the source of capital which would arise in the process of capitalist reproduction. After a period of reproduction, although the right of capital still belongs to the capitalists, it is the surplus value of the hired workers that gives source to the value of capital. It is precisely on the grounds of this contradiction between the right and the source of value that the capitalist system of private ownership was negated in the past. The property of enterprises owned by the whole people will encounter the same kind of contradiction between the right and the source of value in the process of socialist reproduction. After a period of reproduction, although in terms of the right of ownership the state still owns the property of these enterprises; it is the surplus labor of the workers and staff members of these enterprises that gives source to the value of this property. Thus, the moment an enterprise owned by the whole people is set up, the contradiction between the state and the collective will grow as the enterprise develops. When this contradiction is allowed to develop to a certain extent, it will produce a crisis in the conventional system of ownership by the whole people and prompt the change of the system from a unitary system of state ownership to a dual of multiple form of ownership. It is only under this new kind of ownership by whole people that the contradiction between the right and the source of value of the property of enterprises can be resolved and the concept of ownership by the whole people become one with reality.

3. The necessary condition for enterprises owned by the whole people to assume sole responsibility for their own profit and loss.

Giving the enterprises more decisionmaking power is an important target of our economic reform, and the ultimate objective of this measure is to enable the enterprises to become commodity producers who are responsible for their own profit and loss. However, it has been borne out by practice, [as published] this cannot fundamentally resolve the problem of making enterprises assume sole responsibility for their own profit and loss. The reason for this is that our idea of enlarging the power of operation of enterprises is based on the concept of the separation of ownership from the power of operation. Because enterprises only have the power of operation and have no claims to ownership, it is not necessary, and indeed not possible, for them to bear operational risks. This is the basic reason why enterprises only assume responsibility for profit, not for loss. In order to guide the enterprises onto the path of assuming sole responsibility for their own profits and losses, we must

thoroughly modify our idea of giving the enterprises more decisionmaking power. We must enlarge the power of operation of enterprises on the basis of the redistribution of ownership so that the enterprises not only have definite power of operation but have definite claims to ownership.

4. The successful experience of rural reform.

The three points discussed above perhaps only answer in terms of theory the question of what is the correct direction for reforming the system of ownership. If we want an answer given by practice, we can find it in the successful experience we have gained in the rural reform. We were so successful in our rural reform not only because we had thoroughly negated the conventional system of collective ownership but had at the same time established a new form of ownership which combined the interests of the collective and the individuals. Under this new form of ownership, the land belongs to the collective while seeds, fertilizers and farm implements belong to the individuals. Why was it that this form of ownership was chosen? This question has to be answered with the intrinsic contradictions of the conventional system of collective ownership. At its very inception, the conventional system of collective ownership embodies the contradiction between the collective and individuals. In China's countryside, collective ownership has never existed on its own. Wherever there is collective ownership, there we can find its accompaniment--individual ownership. This phenomenon actually foreshadows the inability of the system of collective ownership to accommodate all the productive forces it will create. The development of a unified form of ownership into dual or multiple forms of ownership not only is the inevitable course of development for the conventional system of ownership by the whole people, it is also the inevitable course of development for the conventional system of collective ownership. Some people view the rural reform as a retrogression in the system of ownership. This is not correct. In a certain sense, the rural reform gives expression to the negation of negation in the course of the development of the ownership system: the unitary system of collective ownership has negated the unitary system of individual ownership, and the system of ownership which combines the interests of the collective and the individuals has negated the unitary system of collective ownership. Here, we can see the reconstruction of the system of individual ownership as described by Marx.

Once we have grasped the correct direction for reforming the system of ownership, we should not have any problem working out how we are going to reform the conventional system of ownership by the whole people. So far four basic programs have been proposed for reform of the conventional system of ownership by the whole people. They are: Contracting, leasing, reselling and shareholding. Recently the system of responsibility for assets has been put forward. We think that the last mentioned is nothing new and can be considered a special form of contracting, that is, assets contracting.

Among the four programs mentioned above, the first two do not involve the redistribution of ownership and only require some modifications in the way the conventional system of ownership by the whole people operates. Strictly

speaking, they do not fall into the category of reform of the ownership system. The last two programs put forward two options for the reform of ownership or the redistribution of ownership: One is to cause the state to lose its ownership through reselling; the other is to diversify state ownership. Although many minor points of the last two programs are still open to question, on the whole, the third program can be taken as the basic concept for the reform of ownership in some of the small state enterprises, while the fourth program can be taken as the basic concept for the reform of ownership in large and medium-sized state enterprises. Since the reform of ownership in large and medium-sized state enterprises has greater significance than the reform of ownership in small state enterprises, we will concentrate our discussion on the fourth program in the following paragraph.

On the question of whether or not large and medium-sized state enterprises should practice the share system, we give a positive answer because 1) shareholding meets the needs of the present-day trend of development; 2) shareholding can resolve the intrinsic contradiction of the conventional system of ownership by the whole people; 3) shareholding can create the necessary condition for enterprises owned by the whole people to assume sole responsibility for their own profits and losses; and 4) the rural reform has given testimony to the significance of shareholding. Under the system of shares, the nature of enterprises owned by the whole people is determined not so much by whether or not shares owned by the state constitute the main body, but by how shares owned by the state are organically combined with other shares so that the interests of the state, the collective and the individuals can fully be realized. Even if shares owned by the state do constitute the main body because ownership of property in an enterprise is diversified, there is bound to be fundamental differences between shareholding and the system of state ownership previously practiced. The most obvious difference is that the state can no longer carry out administrative intervention as it pleases. When the state does find it necessary to exert its influence on an enterprise, it will have to take into account the complicated relations in regard to property and be restricted by these relations.

III. The Transitional Form of the Ownership System

The success or otherwise of all programs for the reform of the ownership system depends, in the final analysis, on whether or not they can provide a transitional form for the realization of the ultimate goal of the ownership reform which people find acceptable in practice.

The switch to shareholding being the correct direction for the reform of the ownership system in large and medium-sized enterprises, how are we going to make the transition from the unitary system of state ownership to shareholding where different economic sectors coexist?

In theory, the intrinsic contradiction of the conventional system of ownership by the whole people, that is, the contradiction between the state and the collective, has its roots in the contradiction between the concept of ownership by the whole people and reality. In practice, however, it has its roots in

the contradiction between the right of property ownership and the source of value. The conventional system of ownership by the whole people attempts to resolve the contradiction between the state and the collective through certain concessions on the part of the state in the distribution of profits: provisions are made for enterprises to set aside a portion of their total profits as their own funds. In this way, there exists by the side of purely state-owned property something of a different nature--collective property. The unitary system of state ownership has in fact changed into a system of state ownership with collective ownership as its accompaniment.

However, the appearance of enterprises' own funds has not resolved the contradiction between the state and the collective. It has only provided this contradiction with a new form of expression. Although the state has already made the provision that ownership of retained funds belongs to the enterprises, it has not been further specified that fixed assets acquired by the enterprises through reinvesting their own funds also belong to these enterprises. Thus, contradiction arises between the money and material forms of enterprises' own funds. In money form, own funds constitute legal collective property. In material form, meaning fixed assets, they are still considered state property. Thus, enterprises reinvesting their own funds are faced with this threat: once their own funds change from money into the material form, the collective property of the enterprise may be taken possession of by the state without compensation. For this reason, enterprises are often reluctant to reinvest their own funds and prefer to turn them into consumption funds. Even if they do make investment, they are reluctant to invest in productive fixed assets and would rather spend their money on non-productive fixed assets. Although non-productive fixed assets thus acquired still belong to the state, they can at least bring more actual benefits to the workers and staff members of these enterprises.

The fact is, following the appearance of own funds, state enterprises not only have acquired collective property but have acquired the desire to accumulate collective property. However, because collective property acquired with own funds has only acquired legal status in money form but not in material form. The desire of enterprises to accumulate collective property is suppressed. The inevitable result is that enterprises cannot make use of their own funds in a rational way. This has presented the state with a series of difficulties in macroeconomic control. The conventional system of ownership by the whole people often regards letting enterprises retain more funds as an important means of arousing the enthusiasm of enterprises and invigorating them. However, the more funds the enterprises have retained, the greater the risk of an inflation in consumption funds and in investment in non-productive fixed assets. Thus, while recognizing that enterprises have the power to dispose of their own funds as they see fit, the conventional system of ownership by the whole people is compelled to impose strict regulations on the usage of own funds and, where necessary, has to resort to administrative intervention. This is precisely why the conventional system of ownership by the whole people is always moving around the issue of relaxing and tightening up policies.

Own funds are at once the product of the intrinsic contradiction of the conventional system of ownership by the whole people and the focal point of all existing contradictions of this system. Actually, if a further provision can be made to the effect that fixed assets acquired by enterprises with their own funds are to be considered collective property, all contradictions of the conventional system of ownership by the whole people can be resolved at once. With the resolution of these contradictions, the conventional system of ownership by the whole people as represented by unified state ownership will, in reality, disappear, and a dual system of ownership of the whole people which combines state property with collective property will appear before us. This is the transitional form for the reform of the ownership system we have been looking for. We call this new system of ownership by the whole people the combined ownership of the state and the collective, or simply the dual system of funds.

Our basic concept for the reform of ownership in the large and medium-sized state enterprises is to make use of the dual system of funds, which is a transitional form in itself, to gradually turn the unitary system of state ownership into a system of shareholding where different economic sectors coexist. Based on this line of thought, we can divide the reform of ownership in large and medium-sized enterprises into three stages.

In the first stage, a distinction is made between state and own funds in state enterprises. State funds include fixed assets circulating funds and special funds provided by the state. Own funds include profits retained by the enterprises and fixed assets acquired through reinvesting their own funds (direct investment or payment of loans). State funds are state property used by the enterprises, while own funds are collective property accumulated by the enterprises. Different taxation policies and management methods should be adopted toward state and own funds to show the difference in the nature of ownership. For example, state funds should be subject to fund use tax while own funds should be subject to profits generated by after-tax own funds.

In the second stage, measures will be taken to help enterprises accumulate more collective property. Examples of these measures include reducing direct state investment in enterprises, expanding the source of funds raised by enterprises, raising the level of profit retention, and introducing tax remission or exemption on enterprises' own funds. Every effort will be made to change the excessively small proportion of own funds in terms of the amount increased rather than in the amount in stock. Enterprises will be encouraged to divert the flow of their own funds laterally so that the property structure of enterprises will gradually move from the dual structure toward diversification.

In the third stage, shareholding will be practiced on the basis of the given proportions of the property structure of the enterprise. An enterprise management system which goes with the shareholding system shall be established and the extent of the influence of decisions made by the state depends on the size of state holdings in the enterprise. The state will adopt a flexible policy in regard to ownership, and will make use of the stock market and

other economic means to readjust its holdings in different sectors and enterprises in accordance with macroeconomic control requirements.

The above program is far from perfect. However, we think that it is still feasible as a rough outline for reform of the ownership system in the large and medium-sized state enterprises.

First, taking the dual system of funds as the transitional form for the reform of the ownership system can enable us to avoid possible risks and unrest at the beginning of the reform and to smoothly bring about the stupendous change in the form of ownership. There has long been a distinction between state and own funds in state enterprises, and the contradiction between the money and material forms of their own funds is also something that enterprises can directly perceive. The dual system of funds does not deny the actual distinction between state and own funds. It only uses the method of spelling out the ownership of the funds of enterprises to affirm this fact. On the basis of respecting the established facts, the most difficult move in the reform of the ownership system can thus be made.

Secondly, although state enterprises' own funds are now negligible, this program does not seek to increase the proportion of such funds immediately on the basis of the existing stock of property. Rather, it seeks to gradually increase the proportion of the funds on the basis of increased property. In this way, we can change the excessively small proportion of funds kept by enterprises while cleverly averting the problem of great risks. The reason for this is that state funds are bound to be undercut if the proportion of own funds is increased while the existing stock of property of the enterprise remains unchanged.

Lastly, a serious shortcoming of programs for the switch to shareholding put forward in the past was that they all attempted to artificially fix the proportions of various types of shareholdings. This actually overlooked an important principle in the reform of the ownership system: The reform of the ownership system is to give each and every enterprise an opportunity to create and accumulate wealth, not to offer them equal shares of wealth. The fact is, constrained by existing relations on matters of material interests, attempts to provide enterprises with an equal share of wealth simply cannot work. Taking the existing proportions of the property structure of enterprises as the point of departure, this program for the switch to shareholding has combined the ways in which enterprises acquire more wealth with their efforts to accumulate more wealth. The frictions and contradictions caused by measures aimed at "seeking uniformity" can thus be avoided, and the switch to shareholding can be easily implemented.

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NATIONAL POLICY AND ISSUES

GONGREN RIBAO ON GROWTH OF CHINESE ENTREPRENEURS

HK280500 Beijing GONGREN RIBAO in Chinese 13 Nov 86 p 4

[Article by Song Xianjun (1345 0341 0971): "Thinking About the Mechanics for the Growth of Chinese Entrepreneurs"--passages in slantlines published in boldface]

[Text] Entrepreneurs are social heroes of commodity economy, and the directors and souls of the conduct of enterprises. To enable China to have the ability to stand in the family of strong economic powers in the world as early as possible, tens of thousands of Chinese-type outstanding entrepreneurs active in the international market are indispensable. In this sense, /it is appropriate to say that without a large number of outstanding entrepreneurs, it is impossible to fully develop our country's commodity economy, or make our country prosperous and powerful, and our people rich. Obviously, it is a strategic problem facing the development of Chinese enterprises./ However, what is the existing state of affairs of Chinese entrepreneurs? Are they able to undertake the important task assigned by history? How should we enhance as early as possible the quality and management level of our factory directors and managers so that they will become outstanding entrepreneurs who are all-powerful in commodity economy? These are problems which have to be seriously explored.

The Existing State of Affairs Prompts Us to Deep Thought

This article does not attempt to comprehensively describe and assess the existing state of Chinese entrepreneurs. It only intends to comment on some views and phenomena to provide much food for deep thought and analyze the mechanisms for their growth to accelerate the birth, and promote the growth of Chinese-type outstanding entrepreneurs.

Our country long pursued a closed natural economy, and a highly concentrated and unified management system. We knew nothing about the role and functions of the leaders and organizers of enterprises. Even after the implementation of the policy of opening up to the outside world, there were no "enterprises" in China. We also lacked genuine entrepreneurs. This became a subject for ridicule of some people abroad. This was reflected at home. Some people in China said that they had the same feeling, whereas some others maintained that such view went too far. Some people pondered the problem in

a sober way, and conducted investigations and studies. In a word, people have begun reviewing the existing state of enterprises and entrepreneurs in China. This author thinks that though the view might be a bit too absolute, it has, at least, reflected the reality. /In the first place, at present, it is true that the quality, level, and working ability of factory directors and managers in our enterprises are not high. The number of factory directors who can keep abreast of and promote the development of commodity economy, and may be called genuine entrepreneurs is limited. The number of those outstanding factory directors who can compete with first-rate entrepreneurs in foreign countries in the big commodity economy of the world is particularly small./ Under such circumstances, it is, of course, difficult for us to undertake the great cause of socialist modernization. I think that each and every factory director and manager will not remain indifferent in such a situation.

Second, after the implementation of the policy of opening up and enlivening, and the promulgation of the decision on urban economic structural reform, the Chinese enterprises have started to change their unitary and closed production pattern into an open and market-oriented pattern. In a number of localities, some competent factory directors have come to the fore. They have changed the face of their enterprises, or succeeded in establishing new enterprises. Many enterprises have not only enjoyed high prestige at home, but also have a place in the international market. They have also got a firm foothold amid keen competition. However, to our regret, some factory directors and managers who are bold in carrying out reform and exploring the way forward have been hit by arrows and fallen from horseback one after another. Some noted reformists sigh with feeling as if by prior agreement: /After doing well in running enterprises, enhancing economic results, and making great contributions to the state, they are no longer able to hold their posts as factory directors. Is this not a strange thing?/

Third, in recent years, I have widely met with more than 100 factory directors. My first impression after meeting them is that /they lack the spirit of exploration and creativity./ Should we blame them all for this? Let us first examine the backgrounds of the factory directors. Factory directors currently in office consist of four kinds of people: a) Those who have held the posts of deputy factory directors and factory director for a considerable period of time. Although they have certain working experience, most of them have only attained low cultural standard, and are conservative ideologically. They are not good at absorbing new things and keeping abreast of the modern management system. They adopt a perfunctory attitude toward work. b) In recent years, we have promoted a great number of cadres from among scientific and technical personnel. Although they have higher cultural standard and special skills, they lack management experience, knowledge [as published] and ability. c) In the past and in recent years, we promoted some cadres from among model workers. They work hard and are steadfast in their work. They are able to teach workers by their personal examples as well as verbal instruction. But they know nothing about modern management, and lack the ability to carry out leadership and provide decisive guidance. d) A small number of cadres, who were

transferred from administrative, or even agricultural departments, know nothing about the way to run enterprises well. Generally speaking, factory directors currently in office are younger, and their cultural standard has been raised. However, due to the fact that we laid particular emphasis on "technical background," and that we followed a habit of keeping to conventional ways of doing things and acting rigidly in accordance with regulation, we have not yet markedly enhanced their actual management level, still less their creative working and management capability. Furthermore, /our factory directors and managers currently in office have difficulties which they are reluctant to mention: first, they are powerless before the existing system; second, it is difficult for them to break through the net of personal relationship which is based on the idea of feudal patriarchal clan system and the concept of family; third, there is a lack of understanding and supporting for them in various ways; fourth, like nuclear radiation, the old force of habit and traditional concepts are things which are very hard to guard against; fifth, unhealthy trends are still interfering and exerting their influence. No wonder a number of people sighed with feeling: "It was difficult to enter Sichuan. But it is still more difficult to be a factory director!"/

Perhaps this is the existing state of affairs of Chinese enterprises and entrepreneurs. This is also complicated reality and severe test facing Chinese entrepreneurs.

Reflections in the Course of Pondering Over Problems

Here, we would like to point out the key questions raised in this article: Were Chinese factory directors and managers born incompetent? Are we unable to train and select outstanding entrepreneurs from among one billion people? The answer is no! The strong capability of the Chinese is universally acknowledged. It is unnecessary for us to dwell on this issue here.

Where does the crux lie? There is no harm in examining the subjective and objective conditions for the birth and growth of factory directors and managers in our country, or the arena and environment for their activities. As far as subjective conditions are concerned, first, they must have normal physique and intelligence; second, they must acquire communist world outlook, and concept of value based on this world outlook; third, they must have enterprising spirit of daring to explore the way forward and blaze new trails and an indomitable will to keep on fighting in spite of all setbacks; fourth, they must follow a down-to-earth style in work, and adopt a conscientious and meticulous scientific attitude. Generally speaking, these are decisive factors for the growth of talented personnel. However, the above-mentioned subjective factors are not the determinants for the growth of outstanding factory directors and managers who deserves to be called entrepreneurs. The decisive factors lie in a series of objective conditions. A factory director, or manager is different from talented personnel in general. This is because what a factory director, or manager represents is an organized collective engaged in production and business activities. He needs a comprehensive arena to give play to his capability. If there is "no place for a hero to display his prowess," of course no contemporary hero will appear.

In view of the above-mentioned facts, let us examine the objective social environment in which Chinese factory directors and managers grow, and find out the reasons why it is difficult for them to become outstanding entrepreneurs. /1. In our country, we lack social soil for the birth and normal growth of outstanding entrepreneurs./ This has been mainly reflected in the following two aspects: a) The deep-rooted natural economy, namely the de facto small peasant economy is the social and economic soil in which factory directors and managers of the Chinese enterprises grow. Since they are not "amphibious animals," it is beyond their power to overstep such economic formation. Of course, it is also impossible for them to shake off the yokes of selfishness, narrow-mindedness, conservatism, seclusion, backwardness and foolishness. b) After the establishment of the new social order, many defects of the old society have not yet been thoroughly overcome. On the contrary, a number of abnormal phenomena have occurred. Hence there is no social guarantee for the birth and growth of outstanding factory directors and managers. This is because: First, there is a defect in the collective leadership system. The collective leadership system pursued in enterprises is originally a better administrative form, which is beneficial to giving play to the enthusiasm of "members of the leading body." However, the results turn out contrary to our expectations. It is difficult for factory directors and managers to give play to their wisdom and talent, because the collective leadership, which lacks coordinated spirit, is utilized by some people under the pretext of following collective leadership to suppress the initiative of members of the leading body. Due to the fact that excessive efforts are limited to internal matters, factory directors' enthusiasm for giving play to their capability is dampened. Second, the adverse effect of laying stress on "attaching primary importance to political and ideological consciousness." A number of outstanding qualified personnel were abandoned because of the practice of putting politics first, substituting red for expert, and the criticism of "following the road of becoming bourgeois experts," and "ideas of seeking personnel fame and material gains." In particular, they were discarded under the pretext that their political consciousness was not high. Third, traditional "class analysis" produced adverse effects on theories. Shortly after the establishment of socialism, it was necessary to employ the method of class analysis. However, the method was abused in practice, especially the method of taking class struggle as the key link. This became a method for making people suffer. Many outstanding talented personnel were regarded as disreputable persons. Fourth, overemphasis on "serving the needs" of the state also produced adverse results. This eliminated necessary conditions for the birth and growth of talented personnel. The distribution of talented personnel on the basis of such administrative orders has indeed wasted many talented people, and does not conform with the demand of commodity economy.

/2. Defects in the social system suppress the growth of outstanding entrepreneurs, and it is difficult for top-notch personnel to show themselves./ First, over the past several decades, enterprises were always appendages of the administrative departments which took on everything. The power which enterprises should have had became "alms" or "favours" bestowed by the

administrative departments. Although the situation has been changed since structural reform, enterprises have not yet obtained their crucial power. Due to the fact that enterprises are not independent commodity producers, they cannot but accept the highly centralized administrative guidance. No wonder a number of factory directors sigh with feeling: /almost 60 percent of their time has been spent on dealing with control and interference imposed by administrative departments. How much effort remaining can they devote to production and management?/ It is obvious that under such a management system, factory directors allow themselves to be ordered about. How can they give play to their capability, and do their management work in a creative way? Moreover, under such a management system, the horns of many outstanding talented personnel are drawn in. Their former quick train of thought has become blunt, and their potential in creativity and determination will diminish. In a word, talented personnel have been turned into mediocre persons and "gentlemen" who are overcautious, act rigidly according to regulations, attempt nothing and accomplish nothing. The cadres management system and assessment criterion are also a problem. Cadres of enterprises are still controlled by the organizational departments of the party. The power of factory directors to appoint and remove middle-ranking cadres is still a mere scrap of paper. Under the system of life-long tenure, cadres like to work at the upper level, but are reluctant to work in the lower units. Close relatives are put in important positions. In addition, while assessing cadres, the departments concerned have laid too much emphasis on political standards (leaving aside their bias on the understanding of the world "politics.") Those who are "docile" and "obedient" can get along all right. All this has entailed serious consequences--capable men are not promoted whereas mediocre persons play politics. Some outstanding talented personnel have thus been horribly strangled in the cradle by this system. In addition, the way the relevant units and departments control talented personnel has wasted and stifled a great amount of real talent. The following situation has occurred in some units: they do not allow some talented people to be transferred to other units even though they do not use them. Some leaders of these units do not use them because they are afraid that they will not be able to control them, and that they will be more capable than themselves. This will be hazardous to their positions and so on. If they transfer these talented people to other units, they are afraid that they will be criticized by the higher authorities and the masses, and that a great number of other capable people will follow their example, and apply for job transfers. It is obvious that /the way units and departments control talented personnel is harmful to the growth of outstanding entrepreneurs./

/3. Social atmosphere beneficial to the growth of outstanding entrepreneurs is still lacking in our country./ The existing social atmosphere in China is closely connected with the feudal autocracy which lasted more than 2,000 years, and our national culture. Due to the heritage of old habits on the one hand, and cultural inheritance and atavism on the other, people's value concepts are still overshadowed by the shadow of patriarchal clan system, Confucianism, and small peasant mentality in conjunction with intermingling

of various factors. All this has given rise to a "fast knot" which is difficult to loosen. First, the criterion of docility, obedience, submission, and "bowing unctuously" as the main test of people's political consciousness and self-cultivation is not adopted by the organizational and personnel departments alone. It has penetrated into various departments and units in the society. Those who have original views, stronger self-confidence and ability are criticized without exception as being conceited and arrogant, disregarding the organizations, leaders and elders. "Arrogance" has become a big stick arbitrarily wielded by a number of leaders. It is precisely this big stick which has smashed a great number of outstanding talents. Those who are mediocre and accomplish nothing in work can also have a meteoric rise as long as they are good at "boasting and toadying." It is, of course, to "pass them off" as outstanding entrepreneurs. Second, the masses must not be stronger than their leaders, people at the lower level must not be more capable than those at the higher level, and younger people must not do better than their elders. Otherwise, they will be accorded various kinds of "courteous treatment," which are beyond their expectation. Third, the bad practice of scorning each other is still prevalent. Some people tend to engage in internal strife by slandering, interfering with, letting down, and sealing off one another. They lack the spirit and practice of mutual consultations, unity, cooperation, and making progress together. No wonder some American entrepreneurs hold that if you intend to ask one person to do things, you had better employ a Chinese. If you intend to ask three persons to do the same thing, you had better employ Japanese. Fourth, "fame portends trouble for men just as fattening does for pigs." Whenever a person makes contributions, or has a greater influence in the society, he is frequently not encouraged and respected. On the contrary, he is often treated with disdain, or given the cold shoulder. Magnifiers and powerful microscopes are used to examine their defects. It seems that those who are capable are liable to suffer. It is all right as long as nothing magnificent has been accomplished. This might symbolize the characteristics of the Chinese of "hating the capable out of jealousy and sympathizing with the weak!" Fifth, some people have retained prejudice against intellectuals. They believe that once the status of intellectuals is enhanced, they will get cocky. Some people even distrust intellectuals. Among the main countries in the contemporary world, China is perhaps the only country in which such queer theories still prevail! The intermingling of such factors, and the role played by them have woven steel wire and iron nets which hamper the growth of outstanding entrepreneurs. All this will also become invisible shackles blocking the progress of the society.

Rethinking After Reflection

In the course of buying myself in reflection, I have gained two clear and profound impressions: /1) In the cage of closed natural economy, factory directors in China have formed a habit of relying on administrative orders, keeping to conventional ways of doing things, and acting according to regulations. Therefore, once they enter the kingdom of commodity economy, they are at a loss as to what to do. In view of this state of affairs, people do not regard them as entrepreneurs, but bureaucrats in the administrative

enterprises. 2) Due to the hindrance of the old management system and concepts, many people are not promoted. Even if they are promoted, they are not able to give play to their talent and ability. Thus they are unable to become outstanding entrepreneurs./

I derive the following conclusion from the first impression: factory directors and managers in China should renew their value concept, be bold in facing the present social reality, learn to "swim" in the vast sea, and struggle to compete with the economic giants in the contemporary world. I derive another conclusion from the second impression: Our country, society and the entire people should exert joint efforts to truly overcome defects in the superstructure, production relations, and management system, old value concept, old habit and force with the spirit of exploration and reform to create all objective conditions for the birth and growth of Chinese outstanding entrepreneurs. While discussing the victory or defeat in war, Comrade Mao Zedong profoundly pointed out: "In his endeavor to win a war, a military strategist cannot overstep the limitations imposed by the material conditions within these limitations, however, he can and must strive for victory. The stage of action for a military strategist is built upon objective materials conditions, but on that stage he can direct the performance of many a drama, full of sound and color, power and grandeur." This is also the case with the growth of outstanding entrepreneurs. Subjective efforts are needed. A stage on which drama full of sound and color, power and grandeur can be directed is more urgently needed.

Actually, the subjective and objective conditions which we mention here reside in a more profound and real aspect. In a term of commodity economy, it is called competition. In other words, we need mechanisms of competition for the birth and growth of outstanding entrepreneurs. Now the problem is we should establish various mechanisms useful to the growth of entrepreneurs. To put it more explicitly, we should develop socialist commodity economy so that, on the basis of survival of the fittest, we may select an economic shock force, namely entrepreneurs who can adapt themselves to, and promote the development of commodity economy. In this connection, there are some problems which we should think about again:

/1. Competition among talented personnel and their free flow./ Competition is a decisive mechanism for promoting the development of commodity economy. It is likewise an important mechanism for the growth of talented personnel--entrepreneurs we talk about here. /Without competition, it would be impossible to have first-rate entrepreneurs. Like swimming, it would be impossible to train top swimmers without letting them take part in swimming matches./ Although this is a very simple principle, people have not yet paid sufficient attention to it. We cannot but think deeply about this problem. It is possible for us to run our enterprises just as we are doing in developing sports so that we can bring up outstanding entrepreneurs? I think that we should do so, and that it is possible for us to do so. However, there are two major problems which should be solved. 1) A problem of understanding. At present, some people maintain that selecting leaders by way of

competition is a capitalist liberalization, which will be harmful to the party leadership and the principle of democratic centralism. The simple fact is that selecting cadres by way of competition will jeopardize the vested interests, positions and privileges of some people. It is, of course, difficult for them to accept the principle of "selecting the best, and eliminating the worst." 2) Competition tends to abolish the system of controlling talented personnel by units and departments, which will promote the free flow of talented personnel. This will not only avoid the waste of talented personnel, but also emancipate those outstanding talents who are attacked, suppressed, or even persecuted. The reason it is difficult to open the gate is that some people fear that once it is open, talented personnel will swarm into big cities. In some units, none of them will stay. I have a deep impression that the Chinese intellectuals, a large number of intellectuals fighting in enterprises in particular, do not seek ease and comfort, or fear hardship. As long as there is scope for prowess, heroes will appear. Do we have cause for worry on this score? In recent years, some engineers in Shanghai voluntarily applied to work in the city suburbs of the city, or remote border areas. Does this not prove the point? In some units, there might be no talented personnel left. Even so, this will sound the alarm for those leaders who are good at playing political trickery, abuse power for private gains, and are jealous of the worthy and capable men, so that they will come to realize the truth. In a word, the urgent matter now is that we should ideologically encourage people to abolish their reputation as an authority, and advocate competition among talented personnel. We should promote and protect competition among intellectuals in terms of policy. We should establish a system beneficial to competition among talented personnel so that everyone has the chance to become useful. We should provide and create an environment and conditions for outstanding talented personnel so that they can fully play their role. If the system of controlling talented personnel by units and departments can be abolished, this will impel various units to take good care of talented people. Furthermore, a mechanism for competition aimed at pushing talent to the front will naturally be developed. Competition will not only encourage such personnel to come to the fore, but also gradually arrange a rational distribution of talented personnel. What I should like to stress is that the rationality of the flow of talented personnel does not lie in the qualitative and average use of them by various units, but in maximizing the social utilization rate of talented personnel, and fully tapping their potentials.

/The problem of who will be the "first" to administer enterprises./ People in enterprises have demanded a clarification of the issue, whereas people in the theoretical field have expressed divergent views on it. There is no need for us to comment on various views. However, what we should point out is that the problem is raised and discussed within the limits of traditional concept and system. No breakthrough has been effected in this regard. The enterprise is a unit of production and management under commodity economy. However, why should the factory administrative committee headed by the factory director not be regarded as a highest organ of power and the policy-making center? We are not implementing a responsibility system of factory directors

and managers. However, factory directors are not vested with full power for personnel and labor arrangements. How can they assume their responsibility? The enterprise is a legal entity, and the factory director is its representative. However, government organs at all levels do everything possible to control and intercept his power. How can the factory manager assume his responsibility, or be charged with weighty responsibility? To implement the responsibility system of factory director responsibility, risks, and power should originally be delegated to the lower level. If an enterprise is wholly and independently run by a factory director, a number of people are worried about the following possibilities: 1) The factory manager will break away from the party leadership, and overstep the bounds of the policy, law, and decrees of the state. 2) The factory director will do as he pleases, and sneak away after making a mess of the enterprise. 3) The present quality, level of understanding, and capability of the factory directors are too low, and they are unable to run the enterprises well. Indeed, their worries are not groundless in our practice. However, we believe that they have exaggerated the matter. We believe that the majority of our factory directors will do good and practical things for the state, consumers, and all workers and staff members in their enterprises along the socialist orientation. In the course of market competition, they will do everything possible to strive for victory. In addition, enterprises are, in general, bound by the socialist legal system, and led by the CPC. Therefore, it is unnecessary to worry about the above-mentioned possibilities.

/3. Unlike rural specialized households and individual laborers in towns and townships, it is impossible for our factory directors and managers to earn an income as much as "10,000 yuan." This is an important problem which should be faced squarely in both theory and practice. Specialized and key households may get rich first through hard work. This will not only develop rural productive forces and improve exchanges between urban and rural areas, but also ensure that a great number of capable persons will come to the fore in the vast urban and rural areas. They will play a vanguard and promoting role in the drive to make the entire people rich. Why are people not able to get rich first through making good achievements in production and business management, making contributions to the state, providing consumers with good-quality service, and bringing prosperity to laborers?! I insist that workers' representative assemblies in enterprises and concerned departments should increase the salaries and handsomely award those outstanding factory directors who are good at management, have made great contributions, and achieve results.

Through thinking, reflection, and rethinking deeply again, we may, as a whole, arrive at the following basic conclusions: /Among factory directors and managers currently in office in China, and persons in the vast spheres of the society, there are great numbers of capable persons who acquire the spirit and quality of entrepreneurs. The problem lies in the fact that objective environment has blocked their progress so that they are unable to give full play to their talent./ To reinvigorate China, we need tens of thousands of outstanding entrepreneurs. They are heroes who are worthy of our times.

The entire society should beat gongs to clear the way for their growth. /Those who are determined to become outstanding entrepreneurs should undertake the great tasks entrusted by our times, party, and people. Instead of complaining about it and adopting a wait-and-see attitude, they should bravely face, change and create the reality, so that they will rank among the economic talents in the world!/
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CSO: 4006/153

FOREIGN TRADE, INVESTMENT

TRADE RELATIONS WITH HONG KONG DISCUSSED

OW011914 Beijing XINHUA in English 1529 GMT 1 Dec 86

[Text Beijing, December 1 (XINHUA)—Economic and trade relations between China's mainland and Hong Kong have witnessed inspiring progress, with both import and export and entrepot trade showing big increases.

Jia Shi, president of the China Council for the Promotion of International Trade, made the remarks here tonight at a banquet in honor of the visiting Hong Kong economic and trade delegation led by Lydia Dunn, chairman of the Hong Kong Trade Development Council.

"Since the summer of last year," Jia said, "the mainland has become Hong Kong's primary import and entrepot market which is an important factor in Hong Kong's future economic development."

"Prospects are broad for economic and technological cooperation between Hong Kong and different regions and departments of the mainland thanks to the signing of the Sino-British joint declaration on Hong Kong, and the mainland's open policy," he noted.

He believes the delegation's visit will enhance existing economic and trade ties between the mainland and Hong Kong, and contribute to Hong Kong's stability and prosperity.

Lydia Dunn said, the Hong Kong Trade Development Council and Jia's council have established good cooperative relations and friendship. "With the help of the council and its branches," she said, "the Hong Kong council has run different exhibitions in Guangzhou, Shanghai, Tianjin, Shenyang, Dalian, Fuzhou, Xiamen and Nanjing, and the council has also assisted some mainland provinces and cities in running fairs or seminars in Hong Kong."

She hopes that through the trade development council's Beijing office which is to open soon, the two bodies will strengthen their contacts and cooperation.

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CSO: 4020/56

FOREIGN TRADE, INVESTMENT

OFFICIAL ON TRADE WITH HONG KONG, FOREIGN EXCHANGE BALANCE

HK021338 Hong Kong ZHONGGUO XINWEN SHE in Chinese 0915 GMT 2 Dec 86

[Report: "Wang Pingqing Says That China's Export to Hong Kong This Year Will Exceed \$7 Billion"—ZHONGGUO XINWEN SHE headline]

[Text] Beijing, 2 Dec (ZHONGGUO XINWEN SHE)--When meeting a Hong Kong economic and trade delegation today, Wang Pingqing, vice minister of foreign economic relations and trade, said that China has steadily increased export to Hong Kong in recent years and it is expected that China's export to Hong Kong this year will exceed \$7 billion and create an all-time high.

Wang Pingqing said that Hong Kong's investment in China ranks first among all foreign investment and has achieved rather good results.

He said that the unstable conditions in the international money markets in the recent period have produced some influence on Hong Kong, and it is hoped that bilateral trade between China and Hong Kong will not be affected by these unfavorable factors. Hong Kong Governor Youde, as a special guest coming to China with the delegation, said that it is the best thing if the link between the Hong Kong dollar and the U.S. dollar can be stabilized.

Wang Pingqing also answered some questions about Hong Kong businessmen's investment in China raised by some members of the Hong Kong delegation. He acknowledged that there is some red tape in China, and it is necessary to further simplify the procedures concerning the foreign investments in China. He asked Hong Kong businessmen to set their minds at ease, and assured them that electricity and raw materials supply will be guaranteed once their investment projects are put into operation.

When talking about the foreign exchange balance, Wang Pingqing said that it is hoped that the enterprises with foreign capital will break even on their own in terms of foreign exchange, and compensation trade is also a feasible method.

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FOREIGN TRADE, INVESTMENT

HONG KONG BUSINESSMEN ON MAINLAND TRADE LINKS

OW040338 Beijing XINHUA in English 0306 GMT 4 Nov 86

[Text] Hong Kong, November 4 (XINHUA)—The Chinese mainland has become Hong Kong's largest trade partner as it held the 46th place only a decade ago, according to an influential local businessman.

Martin Barrow is managing director of Jardine, Matheson and Co., which is one of the leading local trading houses with long experience.

Speaking to 200 senior managers attending the Hong Kong Management Association's annual conference here Sunday, Martin Barrow said that the 15,000 factories in the southern Chinese province of Guangdong are producing for Hong Kong interests.

Over 7,000 trucks cross the border between Hong Kong and Guangdong a day, compared with less than half this number a year ago and none at all 10 years ago.

Hong Kong has become the mainland's second largest trade partner, after Japan, he added.

"Sixty percent of all investment made in the mainland from overseas has been made in Guangdong Province and 90 percent of this has come from Hong Kong," Barrow said.

"There is no doubt it will be the Chinese people themselves who will be fundamentally responsible for the transformation of China. Foreign aid and capital can probably meet no more than five percent of China's huge development needs," he concluded.

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FOREIGN TRADE, INVESTMENT

SHANGHAI INVESTS IN ENTERPRISES ABROAD

Shanghai JIEFANG RIBAO in Chinese 21 Jul 86 p 1

[By reporter Gao Xiaoxiao [7559 5135 4562]: "Open Up the International Market, Strengthen Interflow of Information, Promote Commodity Exports; Shanghai Invests Abroad, Setting up Several Tens of Enterprises in Over 20 Countries and Territories, Engaging in Processing and Contracting for Projects"]

[Text] Shanghai has invested and established 40 to 50 singly financed or jointly financed enterprises in more than 20 countries and territories throughout the world. These comprise enterprises in the field of processing, contracting for projects, and air transport services, as also the operation of Chinese restaurants. The operation of these enterprises is playing a positive role in strengthening friendly relations and cooperation with the various countries, in strengthening the interflow of information, in opening up the international market, and in promoting commodity exports.

As early as from 1981 on, Shanghai began to invest abroad and to establish joint enterprises with native enterprises. The foreign economic relations departments alone set up almost 20 factories and enterprises abroad with a total investment of over \$20 million. The Shanghai Industrial Corporation too set up more than 10 factories and enterprises abroad. In addition, the foreign trade departments invested and established more than 10 commercial-type and production-type enterprises. These factories and enterprises are located in the United States, Canada, Holland, Morocco, Mauritius, Thailand, the FRG, Pakistan, Bangladesh, Iran, and in the territories of Hong Kong and Macao. They are engaged in such fields as textiles, knitting, dyeing, foodstuffs processing, carpetmaking, medicines, tobacco, glutamic acid production, printing, and garmentmaking.

In general, the enterprises financed and established abroad by Shanghai are medium- and small-scale enterprises with not much investment but showing early results. Joint ventures in Holland are the Shanghai Restaurant and the Ocean Paradise Playground, and joint ventures in Hong Kong are the Xinya Pharmaceutical Co, Ltd and the Licheng Household Goods Manufacturing Co, Ltd. They are in general investments of limited scale, yielding good economic results, since part of their investments could be recovered and operations expanded within 2 years. The Shanghai Foreign Trade General Corp operates the

Shanghai Foreign Trade Corp in Switzerland and Italy as joint ventures. In the more than 4 years of operations, the scope of its business expanded from the one country of Switzerland to include many countries on the continents of Europe, Asia, and America. The commodities traded expanded from arts and crafts to woolen, silk, and knitted goods. The amount transacted last year exceeded \$30 million. According to statistics, the total amount of export trade achieved by the Shanghai Foreign Trade General Corp in its over 10 overseas establishments last year was in excess of \$60 million, and the total amount of import trade over \$17 million.

Investment and establishment of overseas enterprises, furthermore, promotes exports of products and equipment from this city. The knitting factory which Shanghai established as joint venture in Mauritius had all its equipment supplied by Shanghai, and uses cotton yarn from Shanghai as raw material, thus opening up a new export channel for Shanghai's equipment and cotton yarn. Investing and setting up Chinese restaurants abroad promotes the export of chinaware, cooking utensils, and food ingredients.

Shanghai's foreign investments have advanced from short-term to long-term projects and from pure joint venture production to the development of energy sources and contracting for projects abroad. At the beginning of this year, the Shanghai Marine Products Administration invested in the United States and is cooperating in a joint venture with American international traders in the Shangxi Co, Ltd, fishing in Alaska waters with the use of large processing and trawling ships, also processing its catches into fish products and marketing them. Up to the end of June, the amount of fish products sold exceeded \$700,000. The joint engineering contracting company financed and set up by Shanghai abroad is engaged in contacting for projects and has expanded its labor service operations. In Thailand alone it contracted for altogether seven large projects, among them the construction of two dormitories, a highway, an administrative building for the government, a university building, and factory constructions. In addition, it contracted in Iran for the construction of a factory, including the supply and assembly of its entire equipment.

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CSO: 4006/1313

FOREIGN TRADE, INVESTMENT

SHANGHAI JOINT VENTURES PRODUCE IMPORT SUBSTITUTES

Beijing RENMIN RIBAO in Chinese 25 Aug 86 p 1

[Article by correspondents Feng Xiao [7458 7197] and Ji Honggeng [6060 3126 6342]: "Great Performance by Shanghai's Chinese-Foreign Joint Ventures; Production of Certain Import Substitutes Results in Favorable Foreign Exchange Balance"]

[Text] Shanghai, 24 Aug--Initial successes are evident in Shanghai's use of foreign capital. Over the years and up to the first half of this year, 179 projects with direct foreign investment have been approved. Among these, more than 80 enterprises have already gone into production and achieved favorable foreign exchange balances totalling more than \$8 million during the first half of this year. The Ministry of Electronics Industry has registered the automatic meters manufactured by the Foxboro Co of Shanghai in its roster of products of import substitution.

In the last few years, Shanghai has used foreign capital at an accelerated pace. Up to the first half of this year, Shanghai has attracted \$1.31 billion in direct investments by foreign businesses; altogether 111 Chinese-foreign joint ventures, 66 contractual ventures, and 2 foreign enterprises have been set up. During the same period, 210 projects abroad of non-direct foreign investments were approved; of these, 205 projects were for compensation trade and 5 were international leasing, which altogether brought in \$120 million in foreign capital. In addition, 24 contracts were signed for foreign capital loans, amounting to \$245 million. Some articles produced by joint venture enterprises have attracted domestic and foreign attention, and many products replace formerly imported articles. For instance, the "Shanghai Santana" and the Audi 100 luxury sedan, manufactured and assembled by the Shanghai Dazhong Motorcar Co, Ltd, the escalators manufactured by the Shanghai Xunda Elevator Plant, the programmable exchanges manufactured by the Shanghai Bell Telephone Equipment Manufacturing Co, the microcomputers manufactured by the Shanghai Wangan Electronic Computer Development Co, were all found, on technical appraisal, to be of a standard comparable to similar international products.

China's large-scale industrial projects using foreign capital were mainly concentrated in Shanghai. Among 179 projects with direct foreign investments, 71 were projects of industrial production. Up to the first half of this year, gross output value of enterprises that have started production amounted to 600 million yuan; the total value of exports amounted to almost \$30 million,

providing a tax revenue of over 40 million yuan, and net profits of over 52 million yuan.

Among the more than 100 Chinese-foreign joint ventures in Shanghai, 36 are earning foreign exchange through exports. Up to the first half of this year, these ventures earned \$30 million in foreign exchange. Main items of export were essences, toys, rabbit-hair (sheep) sweaters, suitcases, and electronic and plastic toys.

Since the enterprises with foreign investments have been so markedly successful, a large number of foreign businessmen from the United States, the FRG, Japan, and Hong Kong visited Shanghai during the first half of this year to discuss investments in many areas, such as computers, photocopy machines, equipment for the light and foodstuffs industries, and medical equipment.

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FOREIGN TRADE, INVESTMENT

STEEL AGREEMENT REACHED WITH JAPAN

Zhengzhou ZHONGGUO CHENGXIANG XINXI BAO in Chinese 12 Aug 86 p 4

[By correspondent Peng Mansheng [1756 3341 0581]: "Agreement Achieved in Chinese-Japanese Steel Talks; China To Import 2 to 2.5 Million Tons of Japanese Steel Products During Latter Half of Year"]

[Text] According to a report in the Japanese KOKUSAI BOEKI, the China Metals and Mining Products General Corp in its discussions with six Japanese steel manufacturing firms, reached an agreement on 3 July this year for the importation during the latter half of the year (July to December) of 2 to 2.5 million tons of Japanese steel products. The steel will be of nine kinds, but prices will be 5 percent higher than in the first half of the year. (The increase will be on the average \$14 per ton)

During the first half of the year, China imported 2.43 million tons of Japanese steel, and with the additional 2.5 million tons of the second half of the year the total annual imports will be a little below 5 million tons. In 1985, China imported 20 million tons of steel products, of which Japan had a 50 percent share of around 10 million tons. In these 10 million tons of imports, 6 to 6.5 million tons were ordinary steel materials and steel pipes, 3.5 million tons were special steels, round steel, and angle bars. The other 10 million tons of steel products were mainly imported from the EEC, South America (Brazil, Argentina, Venezuela), the Soviet Union, Eastern Europe, and Turkey. In recent years, imports from the Soviet Union, Eastern Europe, and Turkey have greatly increased.

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FOREIGN TRADE, INVESTMENT

RULES ON BUYING CARS FROM USSR, EASTERN EUROPE

Zhengzhou ZHONGGUO CHENGXIANG XINXI BAO in Chinese 22 Jul 86 p 4

[By reporter Zhang Jinghua [1728 7234 5478]: "The State Materials Bureau Issued New Regulations on Buying Soviet Russian and East European Cars"]

[Text] The State Materials Bureau and other relevant departments recently issued the following new rules for the purchase of cars from the Soviet Union and from Eastern Europe:

On the premise of not adversely affecting the domestic production of cars, prices of some motorcars are to be reduced from 5 to 34 percent. For instance, the Soviet "Volga" is reduced from 40,000 yuan to 38,000 yuan; the "Kamas" from 65,900 yuan to 59,000 yuan; the Polish Polonez from 33,000 yuan to 25,000 yuan; the "Ifa" of the GDR from 26,400 yuan to 25,000 yuan.

Relaxation of purchase controls, expanding standards for car allotments. Controls over the purchase of cars by social groups are relaxed, and the use of cars by government organs may also be appropriately rendered more flexible. In the case of enterprises, as long as the funds come from acceptable sources and are duly authorized, purchase controls may also be relaxed. If the amounts of controlled purchases are exceeded, they may be supplemented. The original regulations on the control of purchases of new cars as replacements may also be relaxed as to their examination and approval. If enterprises are short of funds for the purchase of cars, they may approach the branches and agencies of the China Leasing Corp at the various places for short-term loans to lease or purchase cars.

Efforts should be combined on all sides to develop parts supply network outlets. Petroleum companies shall increase petroleum supply norms for customers who have received new cars.

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FOREIGN TRADE, INVESTMENT

VEHICLE EXPORTS GIVEN HIGH PRIORITY

HK051546 Beijing CHINA DAILY (BUSINESS WEEKLY) in English 29 Oct 86 p 1

[By staff reporter Ma Lixin]

[Text] China wants its auto industry to be one of the central pillars of its industrial development and has given auto products exports high priority.

At present, the Chinese auto industry is trying to increase vehicle exports instead of those of spare parts and thus earn more foreign currency, said Zhu Baishan, president of the China National Automotive Industry Import and Export Corporation.

He told BUSINESS WEEKLY that further expansion of China's auto exports was of strategic importance. China's present auto export strategy was divided into two phases. In the next eight years, China would put emphasis on auto parts export while developing towards vehicle exports.

In the second stage, up to the end of this century, it would try to realize the transition to whole vehicle exports in greater volume.

"At present, China's auto products exporting is lagging far behind many countries," the president said.

In 1985, China produced 430,000 motor vehicles, about one percent of the world total production. Its auto exports were only 0.022 percent of the international total, according to statistics provided by the corporation.

Last year, the world produced 45 million motor vehicles, of which one third were exported. The trade was worth \$140 billion while spare parts exports reached \$49 billion of that.

"There are some reasons for the country's backward situation in auto exports," Zhang Guanghua, a market analyst of the corporation, said.

For many years China auto industry has been devoted to the domestic market and ignored the outside world, which has caused lower quality, and less variety in its auto products and left it unable to meet the needs of international markets.

China now has about 2,400 factories that produce auto spare parts and some of them are "competitive in price, technology and quality."

In this area, China also enjoys the advantage of having a low-cost labour force. At present, several large export projects are under way.

China National Automotive Industry Import and Export Corporation is:

Organizing ample domestic supply of spare parts.

Training higher technical and managerial personnel.

Setting up representative offices in different parts of the world.

In the first phase, China will mainly export medium level trucks, said the president of the corporation.

Japan produced 33,000 trucks of five to six tons in 1982 while China's No 1 and No 2 Auto Plant produced 135,000 in 1985. The two plants are the major manufacturers of trucks in China.

By the end of the first phase, China will raise its export volume to 0.2 or 0.3 percent of the world total. And in the second phase China's auto industry will experience great development in quality and quantity, Zhu, the president, said.

By that time China will be able to produce new types of worldstandard motor vehicles and concentrate on exports of not only trucks but also cars and light bans [as printed] (below three tons).

By the year 2000, China's auto export volume should be about 20 times that of 1985.

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CSO: 4020/56

FOREIGN TRADE, INVESTMENT

PLANS TO ESTABLISH TEXTILE SYNDICATES REVEALED

HK070344 Beijing CHINA DAILY in English 7 Nov 86 p 1

[By staff reporter Liu Dizhong]

[Text] China plans to organize a group of domestic textile syndicates which will enjoy favourable treatment similar to that granted China-based Sino-foreign enterprises, including permission to import raw materials directly from abroad and hire foreigners.

These flexible measures, which are expected to receive approval shortly, are believed to be the first adopted for Chinese enterprises. They are part of the nation's "specific efforts" to upgrade its textile industry, expand textile exports, and increase the ratio of finished textile products exported, Minister of Textile Industry Wu Wenying told CHINA DAILY.

Textile exports became the second-largest item of China's foreign trade last year with sales of more than \$5.5 billion, Wu said.

This year, textiles became the number-one export over the first 10 months, and total sales are expected to exceed last year's figure, she said.

The syndicates--production groups with major textile enterprises as the backbone--are being organized to counter intense competition on the world textile market, Wu said.

Several dozen are planned, including one in Tianjin to produce sportswear; one in Wuxi, Jiangsu Province, which will make down-filled garments, and another in Guangzhou to produce high-fashion pants.

A number of production groups already have been set up over the past two years in Beijing, Shanghai, Changzhou and Wuxi. Their products include raincoats and windbreakers, corduroy and cotton poplin.

"Their successful experience and good economic results have given us confidence to establish more such companies," Wu said.

More than a dozen coastal cities will be chosen by the ministry as bases for textile exports, including Shanghai, Tianjin, Beijing, Qingdao, Guangzhou, Wuxi, Dalian, Hongzhou, Suzhou, Changzhou and Nantong.

On average, these cities already export more than half of the nation's textile products.

Co-operation is being encouraged among the cities to turn out more marketable products, develop new varieties and upgrade processing technology, Wu said.

About a hundred new varieties of textile products are planned for development in the coastal cities, including fashionable dresses, high-quality sportswear, T-shirts, cashmere sweaters, silk products and decorating materials.

Ready-made cloth, cotton print and processed textile products would replace raw material as the major items for export, the minister said.

Meanwhile, she added, efforts will be made to reduce imports of woolen fabrics, as one-third of China's exported cloth is made from foreign materials.

Despite the protectionist policies of Western countries and strong competition in the world market, Wu said prospects are still bright for China to expand its textile exports.

Her optimism was bolstered by the just-ended 60th Chinese Export Commodities Fair in Guangzhou. More than 1 billion worth of textile contracts were signed, making up one quarter of the total business transacted at the fair.

Basically, Wu said, there is no problem in meeting the demands of the domestic market for textile products. "This can help us release more financial and technological resources to improve the quality of exported textile products," she said.

To uphold the good reputation of China's textile products on the world market, a new system will be set up next year to supervise quality standards of the enterprises which produce textile exports, the minister disclosed.

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CSO: 4020/56

FOREIGN TRADE, INVESTMENT

OFFICIAL ADDRESSES PACIFIC RIM CONFERENCE

OW172136 Beijing XINHUA in English 1842 GMT 17 Nov 86

[Excerpts] Canberra, November 17 (XINHUA)--The four-day Pacific Rim Conference (PACRIM 86) being held in Perth, Western Australia, today focused its discussions on the development and prospects of the regional economy and financial market.

Vice-chairman of China's State Planning Commission Gan Ziyu briefed the conference on achievements of China's economic development during the past five years and the main points of China's Seventh Five-Year Plan. He pointed out that China's policy of opening to the outside world is a fundamental state policy.

As a developing country in the Asian-Pacific region, China desires to take an active part in the economic and technical cooperation among the various countries of the region, Gan said.

The conference is attended by more than 400 businessmen, diplomats and politicians from 22 Pacific nations, including the United States, Japan, China, Singapore, the Philippines, Indonesia, Malaysia and New Zealand. It is sponsored by the Western Australian State Development Corporation, one of the business arms of the Australian Government.

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CSO: 4020/56

FOREIGN TRADE, INVESTMENT

MACHINERY EXPORTS UP 53.9 PERCENT JAN-JUN 1986

Beijing ZHONGGUO JIXIE DAO in Chinese 17 Jul 86 p 1

[By reporter Xin Yan [0207 6056]: "Favorable Trend Shown in China's Exports of Machinery and Electrical Products; Total Amount of Exports of the Machinery Industry in the First Half This Year Increased 53.9 Percent"]

[Text] This year, exports of China's machinery and electrical products displayed a favorable tendency. According to statistics of the China National Machinery and Equipment Import and Export Corporation, the Agricultural, and Automobile Import-Export General Corporations for the period from January to June, the total amount of exports of machinery and electrical products was \$178.94 million, an increase of 53.9 percent over the corresponding period of last year. Among these increases, those of the Machinery and Equipment Import-Export General Corp increased 52.5 percent, of the Agricultural Machinery Import-Corp 44.7 percent.

As to the categories of products, most of the major machinery and electrical products registered very large increases compared to the corresponding period last year. Industrial ... [illegible] increased almost threefold, lathes increased 74 percent, cutting tools 42.6 percent, ball bearings 31 percent, electric motors of fractional horsepowers 35 percent, standardizing devices 20.7 percent, internal combustion engines (actual weights) 8.3 percent. However, complete plant equipment and electrical instruments and meters declined 22.6 and 14.5 percent, respectively.

According to opinions expressed by comrades in the relevant departments, striving to fulfill and overfulfill this year's task of machinery and electrical products exports still remains a very arduous affair.

For these reasons, the departments in administrative charge of the machinery industry in the various localities and all import-export companies, while making full use of commodities in stock, must raise the fulfillment ratio of contracts, where such needs further improvement, and must, furthermore, energetically overcome the difficulties caused by shortages of raw and semifinished materials, transport facilities, and electric power, reduce cases of short deliveries on contracts due to reasons on our part, and ensure the fulfillment of this year's task of machinery and electrical products exports.

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CSO: 4006/1313

FOREIGN TRADE, INVESTMENT

GUANGZHOU JOINT VENTURES REPORTED PROFITABLE

OW271930 Beijing XINHUA in English 1559 GMT 27 Nov 86

[Text] Hong Kong, November 27 (XINHUA)--Nearly 90 percent of joint ventures, cooperative enterprises and other foreign- or Hong Kong-funded businesses have been making profits in Guangzhou, capital of coastal Guangdong Province, Mayor Zhu Senlin announced here Wednesday.

At a press conference for a seminar on successful investment in the city, he said among some 300 foreign- or Hong Kong-funded businesses which have been set up since 1979, 12 percent have suffered losses, as a recent survey indicates.

Guangzhou had signed agreements with foreign and Hong Kong enterprises on 666 major projects of joint ventures, cooperative enterprises and compensation trade, involving 1.4 billion U.S. dollars of investment, by the end of September of this year, he said.

The 300 enterprises that have gone into operation have involved an inflow of capital of 430 million U.S. dollars, according to Mayor Zhu.

Asked about the future of the enterprises running at a loss, he said the municipal government has earmarked more loans and helped improve management to support those enterprises.

But, he said, a business may go bankrupt if there is no way for it to survive after all means have been tried.

The bankruptcy law which is under discussion at the Standing Committee of the National People's Congress--China's highest legislative body--will be promulgated soon.

To deal with the shortage of foreign exchange of some joint ventures and cooperative enterprises, the mayor said Guangzhou has adopted such measures as allocating the city's foreign exchange quotes to some firms.

In addition to the major projects above, the city has signed over 10,000 small cooperative projects such as processing supplied materials or assembling imported parts or components for overseas partners.

He said Guangzhou has also worked out specific measures for implementing the regulation to encourage foreign investment promulgated by the Chinese central government last month.

Speakers at the one-day seminar—"successes in China"—which opened today, will also include manager of joint ventures in Guangzhou.

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CSO: 4020/57

FOREIGN TRADE, INVESTMENT

HUNAN LEADER ON MEASURES TO PROMOTE FOREIGN TRADE

HK280245 Changsha Hunan Provincial Service in Mandarin 0100 GMT 28 Nov 86

[Text] At a provincial foreign trade planning conference convened yesterday, Governor Xiong Qingquan proposed that the province must guarantee to earn \$550 million in foreign exchange from next year's foreign trade, and strive to attain the \$600 million mark, thereby achieving a rise of 20 percent over this year.

Hunan's foreign trade this year has been more successful than expected. The province had fulfilled its state-assigned export quota by mid-October. By mid-November, it had fulfilled the goal set by the provincial party committee and government at the beginning of the year. Export value totaled \$450 million. This has created conditions for expanding exports next year.

However, there are also many difficult factors in striving for a still higher level in foreign trade next year. Hence, Governor Xiong pointed out that the province must seriously implement the existing policies on rewards and also formulate a number of new policy measures. The province must summon up resolve to make a success of running the export production bases and gradually form an export production system. Operational powers regarding a number of export products should be delegated to the lower levels. In this way the prefectures and cities will have a certain degree of decision-making powers in procurement prices and sources of supply. This will stimulate their enthusiasm for foreign trade, and they will work hard to open up foreign markets.

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CSO: 4006/156

FOREIGN TRADE, INVESTMENT

JIANGSU GOVERNOR URGES DEVELOPMENT THROUGH EXPORTS

OW250001 Nanjing Jiangsu Provincial Service in Mandarin 2300 GMT 22 Nov 86

[Excerpts] Addressing an enlarged meeting of provincial government functionaries yesterday afternoon, Governor Gu Xiulian called on provincial-level organs to do their best to boost Jiangsu's economic development by focusing on an export-oriented economy.

At the meeting Vice Governor Zhang Xuwu made a report on his tour of Guangdong Province to learn from its experiences, noting that great changes had taken place in the Zhujiang Delta and other areas of the province as a result of carrying out economic reform and implementing a policy of opening to the outside world. He also briefed the meeting participants on Guangdong's experience in developing economic relations with foreign countries. He suggested that Jiangsu should follow a suitable economic and foreign trade policy.

Leading comrades of the provincial government expressed the hope that all departments of the provincial-level organs have a good understanding of the nation's basic policy of opening to the outside world, concentrate on developing an export-oriented economy, use foreign trade as a motive force to boost the province's economic development, earnestly implement the provisions on encouraging foreign investment promulgated by the provincial government recently, and quicken the pace of utilizing foreign capital and importing technology.

Leading comrades of the provincial government also urged provincial-level organs to boldly make use of foreign capital, implement a preferential policy, improve the investment environment, expand exports in order to increase foreign exchange earnings, invite foreign businessmen to set up joint ventures or cooperative enterprises in Jiangsu, and strive to earn more foreign exchange through tourism and exports of technology and labor services.

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CSO: 4006/156

FOREIGN TRADE, INVESTMENT

SHENZHEN: PORT WHOLLY BUILT BY FOREIGN CAPITAL

HK131003 Hong Kong ZHONGGUO XINWEN SHE in Chinese 1229 GMT 10 Nov 86

[Text] Shenzhen, 10 Nov (ZHONGGUO XINWEN SHE)--Shenzhen's Mawan deepwater port project, the first port in China wholly built by foreign capital, is to start within this year. After the completion of the project, the port will become a large computer-controlled container port.

Mawan Port will be built and administered by the Haixing Port Development Company Ltd, which is jointly run by Singapore's Sen Chang [2773 2512] Piling Company Ltd (private), and the Shenzhen branch of the General Services Company for the Exploration of Nanhai Oil. All the funds needed will be wholly provided by the Singapore side. The Haixing Port Development Company Ltd was officially established on 11 November.

Mawan Port is located at the western part of Shenzhen's Nantou Peninsula and the eastern side of the southern section of the Jishi waterway at the Zhu Jiang mouth. Its natural water depth ranges from 9 to 14 meters, and the water area is calm. The project to be started this year is the first phase of the entire project, with an investment of 178 million yuan. Two berths will be completed first. One of them is specially designed for containers of the 35,000-ton class. It will be 250 meters in length, 450 meters in longitudinal depth, and 12 meters in water depth. The other one is a multi-purpose berth for vessels of 20,000-ton class. It will be 200 meters in length, 450 meters in longitudinal depth, and 11 meters in water depth. In front of the port, there will be a loading rack and wheeled cranes. In the rear, there will be a container yard, warehouses, and a container cargo transport center. A feeder railway of the Shenzhen-Mawan Railway will go straight to the port.

These two berths will be completed and put into operation in June 1988. According to plans, 12 berths will be built in the entire port. The coastal line of the port will be 3.15 km in length.

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CSO: 4006/156

FOREIGN TRADE, INVESTMENT

JOINT VENTURES IN ZHEJIANG SHOWING PROFITS

OW231242 Beijing XINHUA in English 1130 GMT 23 Nov 86

[Text] Hangzhou, November 23 (XINHUA)--A garment-making joint venture between Hangzhou, capital of Zhejiang Province, and Japan has made a profit of 612,000 yuan (165,000 U.S. dollars) since it started operation seven months ago.

The Japanese side, according to its 30 percent of the investment, will get over 180,000 yuan (nearly 50,000 U.S. dollars) in dividend.

This is only one of the 25 Chinese-foreign joint ventures in East China's Zhejiang Province that have begun making profits.

According to an official in the provincial foreign economic relations and trade department, the joint ventures are in the textile, electronic, food, aquatic products, mineral, chemical, building materials, machinery, garment, tourism and service trades.

Previously most of the investors were from Hong Kong and Japan. In recent years, business people from Australia, Britain, France and the United States have come to invest in the form of compensation trade, joint venture, cooperative production or operation, bonds-issuing, leasing and business credit.

At present, 19 joint ventures sell their products abroad, and the number is expected to increase to 50 next year.

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CSO: 4020/57

FOREIGN TRADE, INVESTMENT

BRIEFS

SHANGHAI'S LABOR EXPORT CONTRACTS--Last year, Shanghai signed more than 20 contracts for the execution of projects and labor service cooperation abroad. The value of the contracts was almost \$13 million. They included a comprehensive amusement park for Rotterdam in Holland, a textile mill, garment factory, shoe factory, and electrical instrument factory for Iraq, and other projects, numbering more than 10, as well as building officer dormitories in Thailand. Shanghai, furthermore, instituted cooperation in certain projects and labor services with such countries as Iran, Holland, Mauritius, and Australia. Extensive contacts were taken up with such countries and territories as Hong Kong, Thailand, Singapore, Malaysia, the Philippines, Rwanda, and Morocco. In addition, 18 foreign aid projects and multilateral and bilateral aid projects of the United Nations were taken on. These included a rice bran oil plant and a chemical fertilizer plant for Bangladesh, a garment factory for the Sudan, a stadium for the Comoros, and a tailoring plant for Zimbabwe. [Text] [Shanghai SHANGHAI GONGYE JINGJI BAO in Chinese 5 May 86 p 1] 9808

SHANDONG EXPORTS--Beijing, 19 Nov (XINHUA)--Shandong Province had fulfilled the provincial plan for exporting local products by the end of October, earning a total of 1.41 billion U.S. dollars--30.9 percent more than last year. The export of the province's cotton, corn and peanuts increased by big margins. The earning of foreign exchange by light industry, textiles and arts and crafts all increased by one third. [Text] [Beijing XINHUA in English 1121 GMT 19 Nov 86 OW] /8309

HANGZHOU EXPORTS--Beijing, 18 Nov (XINHUA)--Hangzhou has developed nearly a hundred new products for export this year and earned an additional 30 million U.S. dollars. The capital city of coastal Zhejiang Province already has over 400 various exports. The new export products include canned cucumber, wild ducks, wine, and embroidered linen garments. By the end of October, the city had earned more than 154 million U.S. dollars, a 50 percent increase over the same period last year. [Text] [Beijing XINHUA in English 1504 GMT 18 Nov 86 OW] /8309

CSO: 4020/56

ECONOMIC ZONES

PREFERENTIAL TREATMENT IN SHANGHAI ECONOMIC DEVELOPMENT ZONES

Hong Kong WEN WEI PO in Chinese 30, 31 Jul 86

[30 Jul 86 p 12]

[Text] Beijing, 29 July (NCNA)--An area of over 500 square km of Shanghai Municipality has been designated as an area opened up to foreigners and to enjoy preferential treatment.

The Shanghai municipal government a few days ago issued a circular which says that the area designated as opened up to foreigners and to enjoy preferential treatment comprises the Shanghai city area, 10 towns in suburban counties (the county administration seats) and 6 satellite cities and cities and townships designated as industrial cities and townships.

The total area of these districts is 523.9 square km and occupies 8.6 percent of the entire area of Shanghai Municipality. Agricultural, forestry, animal husbandry, and aquaculture production and processing, carried on in villages outside the mentioned zone, established with foreign investment and with the objective of developing foreign trade, may, with the approval of the Shanghai Municipal Government, also enjoy equal preferential treatment.

Certain special policies applied by Shanghai, similar to those that apply in the case of special economic zones [SEZs], are, as far as can now be ascertained, policies in respect of the following:

I. Regarding Scope and Time for the Examination and Approval of Projects

The State Council has delegated to Shanghai the authority to examine and approve independently projects of a productive nature with total investments not exceeding \$30 million; projects of an unproductive nature are not subject to the \$30 million limit.

In the case of a project with foreign investment, the Municipal Commission for Foreign Economic Relations and Trade, with other relevant commissions, must respond within 1 month to any formal application by the administrative organ in charge of the Chinese investment.

II. Regarding Preferential Taxation

1. The sphere of preferential reductions and exemptions from enterprise income tax and from consolidated industrial and commercial tax for the old Shanghai city district is extended to 10 counties in the suburban area within the jurisdiction of Shanghai Municipality and to key satellite cities and townships where, with the approval of the municipal government, industrial and research projects have been concentrated and set up, also to projects of the agricultural, forestry, animal husbandry, and aquacultural industries, and to projects of processing products of these industries, established with foreign investments and having as their objective the development of exports, if approved by the municipal government and located within its jurisdiction.

2. All technology-intensive and knowledge-intensive projects of Chinese-foreign joint ventures, Chinese-foreign cooperative ventures, and solely foreign-financed enterprises, set up within the above-mentioned old Shanghai city district, or projects with foreign investments of \$30 million or above, with long recovery periods, or projects in the field of energy, communications, and harbor construction, shall be charged enterprise income tax at the reduced rate of 15 percent. Shanghai has the authority to examine and approve projects of this nature. Remittances abroad of a foreign partner's share in these projects shall be exempt from remittance income tax.

Enterprises in the old city area which do not fulfil the above-stated conditions for tax reductions, but which are engaged in one of the following trades, may receive a 20 percent reduction from the enterprise income tax and also a 20 percent reduction from the local income tax, calculated according to the amounts originally under these tax laws: (1) Machine manufacturing and electrical industries; (2) Metallurgical, chemical, building materials industries; (3) Light, textile, packing industries; (4) Medical instruments and pharmaceutical industries; (5) Agricultural, forestry, animal husbandry, aquaculture industries, and their processing industries; (6) Construction industry; (7) Enterprises engaged in scientific research projects.

[31 Jul 86 p 12]

[Text] 3. In the case of newly established ventures with Chinese-foreign investments (not including Chinese-foreign cooperative ventures and solely foreign financed enterprises) whose joint business operations are to continue for 10 or more years, the enterprise in question may apply for, and be approved by the tax organ, for exemption from income tax for the first and second year, starting from the first year the enterprise has a profit, and shall be taxed at half the due rate in the third to fifth years.

4. In case the foreign partner reinvests in China for at least 5 years his profits from a joint venture, he shall be refunded 40 percent of the income tax that has been levied on the portion which he has reinvested.

5. In case a foreign businessman did not establish his own organization in China, but derives dividends, rental, patent royalties, and other income from

a source in the old city district to which special preferential treatment applies, such income shall be taxed at the reduced rate of 10 percent, unless such income is exempt from income tax according to law.

6. Equipment imported as investment or as supplemental investment by an enterprise in the old city district, to be used by the enterprise in question either as production equipment, or as equipment for business operations, as building materials, means of transportation and office equipment for own use, shall be exempt from import duty and consolidated industrial and commercial tax.

7. Export products manufactured by enterprises in the old city district, excepting products which the state prohibits from being exported, shall be exempt from consolidated industrial and commercial tax.

8. Raw and semifinished materials, spare parts, fitting, components, and packing materials imported by enterprises in the old city district shall be exempt from consolidated industrial and commercial tax to the extent that they are used for export products.

9. Household articles and means of transportation brought into the country by foreign personnel working for enterprises in the old city district, or residing there, for their own use, shall within reasonable amounts be exempt from consolidated industrial and commercial tax, on the strength of certification by the relevant agency of the municipal people's government.

III. Regarding Land Rental

1. Land rentals must not be adjusted within less than 3 years, however, in not less than 5 years at the beginning of the land use.

2. In case the Chinese party to a joint venture brings in a land use right as his investment, no adjustment is permitted for the duration of the contract.

IV. Regarding Materials Supplies and Product Marketing

1. When Chinese-foreign joint ventures, cooperative ventures, and solely foreign-financed enterprises purchase materials in China, they may sign contracts directly with the producing unit, determine the place of delivery, or establish a production base for raw materials to ensure future supplies. They may also purchase at the various domestic commodity fairs and markets. Any materials listed as plan supplies, shall be supplied at plan prices. If the supply problem cannot be solved within the plan, supplies may be obtained at floating or market-adjusted prices. The relevant departments must not willfully raise prices; violations will be prosecuted according to law.

2. Export articles produced by the above-mentioned enterprises may be promoted and marketed at the Guangzhou Trade Fair or at the export commodity trade talks held by this city. Articles for domestic sale may be promoted and marketed at the various domestic trade fairs or markets.

Prices for export products shall be determined by the enterprises themselves. Domestic sales of products, which are unavailable or in short supply in China and would have to be imported, may be approved for "import substitution." Such products may be bought by the unit in need of them at international market prices and against foreign exchange.

3. Imports and exports that require permits may be imported or exported in separate lots, within the scope of the permit. The unit that issues the import or export permit must do so within 5 days, or refer the case to higher authority.

If the quantity listed on the export permit is less than the quantity that needs to be exported, the Foreign Trade Import-Export Corporation may be applied to, to purchase the surplus quantity and to pay for it in foreign exchange according to export prices.

4. Products manufactured by Chinese-foreign joint ventures, cooperative ventures, and solely foreign-financed enterprises may participate in municipal or nationwide public appraisals of product qualities; products of excellent quality shall be issued certificates of excellence.

5. Chinese-foreign joint ventures and cooperative ventures may, with due approval, establish business organizations and train business and managerial personnel abroad, also in Hong Kong, Macao, and Taiwan.

V. Regarding Labor Management

1. Chinese-foreign joint ventures, cooperative ventures, and solely foreign-financed enterprises shall have authority to freely invite applications for jobs, select, and employ their working personnel, and according to the relevant Chinese legal provisions, and in case of legitimate reason, also to readjust the work of staff and workers, or discontinue further employment, and dismiss or retire them.

The foreign partner in a joint operation may guarantee and recommend certain Chinese individuals with actual capabilities and suited for the needs of the enterprise to be employed as staff or workers in the enterprise.

2. The salary and wages standards, the form of remunerations, the rewards and allowances for staff and workers shall be determined by the board of directors.

In pace with the development of production at the enterprise, the skill and expertise of its staff and workers, and with rising labor productivity, salaries and wages to staff and workers may be gradually increased. Should the enterprise incur losses, salaries and wages to staff and workers may be appropriately lowered on consultation with the labor union of the enterprise.

VI. Regarding Foreign Exchange Control

1. Chinese-foreign joint ventures, cooperative ventures, and solely foreign-financed enterprises may directly raise capital from banks abroad, and may

also transact foreign exchange deposits and loans with the Shanghai branches of foreign or overseas Chinese-financed banks.

2. Net profits earned by foreign partners of joint enterprises may be remitted abroad through the Bank of China; profits from solely foreign-financed enterprises may be entirely remitted abroad.

3. The salaries, wages, and other legitimate rights and interests of staff and workers of foreign nationality or of those from Hong Kong and Macao, may be remitted abroad in full, after deducting legal taxes and domestic expenses.

In the last few years, there has been a rapid development in economic and trade relations between Shanghai and all nations and territories of the world. The municipal government is confident that with the further opening up of Shanghai and with a more profound mutual understanding between Shanghai and all parts of the world, there will be an even closer economic, trade, and technological cooperation between Shanghai and the various countries and territories of the world.

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CSO: 4006/1312

ECONOMIC ZONES

EXPORT-ORIENTED ECONOMY TAKES SHAPE IN SHANTOU

HK201052 Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 20 Nov 86

[Excerpts] By 14 November the Shantou Special Economic Zone had been established for exactly five years. After five years of construction, the zone has initially become an export-oriented special economic zone, with industry and agriculture as its main focus and involving comprehensive development of transportation, communications, commerce, tourism, financing, and selling real estate.

The zone has now laid a foundation in energy, telecommunications, and the services industry. Over the past five years, it has signed 338 contracts on items bringing in foreign technology and on cooperation with other enterprises in the county and on running enterprises on its own, with a total investment amount of some 2.14 billion Hong Kong dollars. There are now some 80 industrial enterprises in the zone, and their main products include carpets, garments, plastics, construction materials, electrical machines, ceramics, toys, and jewelry. About 75 percent of the industrial products are for export. There are now 20 agricultural enterprises and 11 processing plants in the zone, including roasting eels, cold storage, preserving food, food processing, and processing rabbit hair. The zone has brought in over 100 fine breeds of plants and animals. Over 90 percent of its agricultural and aquatic products are for export.

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CSO: 4006/156

ECONOMIC ZONES

SHENZHEN REPORTS ALL-ROUND ECONOMIC UPSURGE

OW180516 Beijing XINHUA in English 0220 GMT 18 Nov 86

[Text] Shenzhen, November 18 (XINHUA)—Shenzhen, one of the four special economic zones in South China, is experiencing an all-round upsurge of industry, external trade and financial income this year, local statistics officials told XINHUA today.

Between January and October, its industrial output value reached 2.728 billion yuan (about 736.5 million U.S. dollars), surpassing the level of the whole of 1985.

Forty percent, or 1.193 billion yuan (about 267.1 million U.S. dollars), of this value came from goods for export—ten percent higher than last year, officials said.

Exports this year include TV sets, radio-cassettes, bicycles, electronic clocks, quartz watches, garments and soft drinks.

Meanwhile, Shenzhen attracted 265 million U.S. dollars of direct investment from foreign firms—64.8 percent more than the same period last year.

Its financial income increased by 6.5 percent to 698 million yuan (about 188.4 million U.S. dollars), according to statistics.

Commerce in the zone, which suffered a setback early this year, is resuming its prosperity. The total retail sales value reached 2.149 billion yuan (about 580.2 million U.S. dollars) in the first ten months of this year. Officials predict that it will reach the 1985 level by the end of this year.

The savings deposits at the city also increased to 4.078 billion yuan (about 1.10 million U.S. dollars).

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CSO: 4020/57

ECONOMIC ZONES

SHENZHEN RESOLVES CONSOLIDATION PROBLEMS

HK260221 Hong Kong ZHONGGUO XINWEN SHE in Chinese 1246 GMT 25 Nov 86

[Text] Shenzhen, 25 Nov (ZHONGGUO XINWEN SHE)--The comprehensive consolidation of industrial and commercial enterprises by the Shenzhen Special Economic Zone has come to the end of a stage. During the current comprehensive consolidation, lasting for nine months, the following problems have been resolved:

--Ninety-three "briefcase companies" have been banned and their business licenses confiscated. After their establishment, having obtained the approval of the departments concerned by cheating, these "briefcase companies," with neither capital nor permanent offices, engaged in speculation and obtained loans and payments for goods through fraud and deception, thus upsetting the social and economic order.

--The cases of leasing or transferring business licenses, in which 91 enterprises were involved, have been handled and corrected. During the current consolidation, it was discovered that after obtaining their business licenses, some enterprises, instead of making investments and carrying out their operations, leased or transferred them without authorization to people from other parts of the country without permanent employment. This led to many swindling cases. Two hundred and eighty-five enterprises involved in these cases were abolished.

--Seven general companies have been eliminated and 84 companies and branch companies eliminated or merged. The previous enterprise setup in Shenzhen was confused. Under some general companies there were other general companies, and under some companies there were shopping centers under which again there were yet more companies, and some retail departments claimed they were branch companies. The situation in which organizations were overlapping and over-staffed has been ended by the current consolidation.

In addition, further measures have been taken to deal with enterprises run by party and government organizations.

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CSO: 4006/156

ECONOMIC ZONES

NEW FOREIGN EXCHANGE OFFICES SET UP IN XIAMEN, ZHUHAI

HK121505 Hong Kong WEN WEI PO in Chinese 12 Nov 86 p 2

["Special Dispatch" by reporter Kuang Yu [1639 1342]: "With the Approval of the State Administration of Exchange Control Under the State Council, Xiamen and Zhuhai Set Up Organizations for Buying and Selling Foreign Exchange Through Negotiations"]

[Text] With the formal approval of the State Administration of Exchange Control under the State Council a few days ago and on the premise of properly using foreign exchange, the Xiamen and Zhuhai Special Economic Zones have set up organizations that will allow foreign exchange buyers to meet with foreign exchange sellers to freely negotiate exchange rates. This is a breakthrough in the administration of exchange control in the two special economic zones.

According to relevant official quarters under the State Administration of Exchange Control, this approval is aimed at promoting and enlivening the administration of exchange control in the special economic zones, at making the most of foreign exchange funds, and at promoting economic development in the special economic zones. Therefore, Zhuhai and Xiamen are allowed to follow the Shenzhen Special Economic Zone's practice of regulating foreign exchange on a trial basis. However, organizations for regulating foreign exchange must be supervised by local subbureaus of exchange control. On the premise that foreign exchange sources are ensured to be proper and on the premise of properly using foreign exchange, foreign exchange buyers and sellers are allowed to meet with one another to freely negotiate exchange rates.

/9738

CNO: 4006/156

ECONOMIC ZONES

BRIEFS

INTERNATIONAL JOINT VENTURES IN TIANJIN--Tianjin, November 25 (XINHUA)--Ten joint ventures are producing and another five have started trial production in an economic and technological zone Beijing developed in Tianjin, North China. The first workshop area and some living quarters have been completed in a 1.2 square kilometer area of the zone, which will eventually cover 33 square kilometers, zone administration official Wang Rongchun told XINHUA today. By the end of the year, Wang said, the number of operating enterprises in the district will reach 20. These are joint ventures run between the city and firms from Denmark, Japan, Federal Germany, the United States and Hong Kong, Wang said. Now, over 43 contracts have been signed by the city and foreign companies involving 27 million U.S. dollars of foreign funds, Wang said. [Text] [Beijing XINHUA in English 0750 GMT 25 Nov 86] /8309

TASKS IN ENTERPRISE REFORM--According to XIAN WANBAO, after listening to reports on the form of number of enterprises and departments on the implementation of the joint stock, leasing, and contract systems, Dong Jichang, deputy secretary of the Provincial Party Committee and secretary of the City Party Committee, pointed out: It is necessary to study and resolve the problem of separating enterprise ownership powers from operating powers, and regard this as a point of breakthrough in reform of the economic structure. We should embark on a new path in this respect. Dong Jichang demanded that Xian City get a good grasp of these matters in deepening enterprise economic structural reform next year: 1) Perfect the market mechanism; 2) change the functions of the organs; 3) harmonize the internal relations of the economy. [Text] [Xian Shaanxi Provincial Service in Mandarin 0200 GMT 1 Dec 86 HK] /9738

CSO: 4006/159

DOMESTIC TRADE

SHANDONG RAPIDLY DEVELOPS TRADE FAIRS, MARKETS

SK250838 Jinan DAZHONG RIBAO in Chinese 10 Nov 86 p 1

[Text] Over the past few years, our province has achieved rapid development in establishing trade fairs and markets. To date it has had more than 5,400 trade fairs and markets.

Our province has changed its former trade fairs and markets, in which only peasants supplied each other's needs and readjusted their own surpluses and shortages, into comprehensive trading places full of multiple commodities and commodities turned out under the program of developing a diversified economy. Those former trade fairs and markets were only confined to transactions by peasants, and their commodities only consisted of vegetables, fruits and melons. At present, commodity sellers in these trade fairs and markets are not only peasants, but also those who come from state commercial firms, supply and marketing cooperatives, and industrial and mining enterprises; as well as from enterprises run by urban neighborhoods, townships, towns, and households. They not only have the commodities of indigenous farm and sideline products, but also industrial products, handicraft articles and work, and means of livelihood and production. A large volume of farm and sideline products have flowed into urban areas through dealers in these trade fairs and markets, and many industrial products have been directly sold to peasants through them. As a result, these trade fairs and markets have become an important channel of commodity exchanges between the urban and rural areas and have played an ever-increasing role as an economic link between the urban and rural areas. This represents the new and important trade development among markets and trade fairs.

The second characteristic of trade among the markets and trade fairs throughout our province is that their transactions have been changed from solely retail sales to those of both retail and wholesale and that a large number of wholesale markets have taken shape. Of the 5,400 trade fairs and markets throughout the province, the overwhelming majority conduct both retail and wholesale trade and those concentrating on wholesale have been also and successively established. As of the end of August, both urban and rural areas throughout the province had 38 wholesale markets and urban wholesale agents. To date these markets and agents have become distributing centers for various commodities.

The third characteristic of trade among the markets and trade fairs throughout the province is that they have fostered a trend of expanding their marketing places, improving their poor facilities to higher standards, and increasing their functions. At present, there are 351 covered markets in the province, which occupy more than 700,000 square meters of land.

DOMESTIC TRADE

BRIEFS

ECONOMIC, TECHNOLOGICAL MEETING ENDS--The 5-day North China economic, technological, material, and information exchange and transaction meeting concluded in Shenyang today. This information exchange meeting was attended by approximately 500 people from various circles from 18 provinces and regions.

Approximately 100 agreements on economic and technological cooperation, technological transfer, and material supply and marketing were concluded and the total transaction volume reached the vicinity of \$100 million yuan. What is worth mentioning is that many village, township and town heads, and party secretaries, leading comrades of responsible economic departments, and comrades of the support-the-poor work team of the eastern, western, and northern parts of Liaoning also came to the meeting to participate in information exchange and transactions. [Text] [Shenyang Liaoning Provincial Service in Mandarin 1030 GMT 29 Nov 86 SK] /6662

SHAANXI TECHNOLOGICAL IMPORTS, TRANSFORMATION--During the sixth 5-year plan period, Shaanxi Province scored achievements in technological imports and technological transformation. Except for Xian City, our whole province concluded transactions on 181 technological imports and transformation projects, and the volume of business was approximately \$200 million. The technological imports projects were mainly done in 1984 and 1985, and the volume of business in 1985 was only \$116 million and ranked 12th in the whole country. The technological imports and transformation projects, 76 have been put into operation and the total amount of investment is 250 million yuan. Their output value increase by some 600 million yuan each year and their profits and taxes by 90 million yuan, and they earn \$16 million worth in foreign exchange each year. The other projects will be put into operation one after another in the next years. [Summary] [Xian Shaanxi Provincial Service in Mandarin 0030 GMT 27 Nov 86 HK] /6662

CSO: 4006/146

FINANCE, BANKING

LIAOWANG ON SINO-U.S. FINANCIAL MARKET SYMPOSIUM

HK011240 Hong Kong LIAOWANG OVERSEAS EDITION in Chinese No 47, 24 Nov 86
pp 6-7

[Article by Zhu Minzhi [2612 2404 0037]: "An Important Step Forward in Sino-U.S. Financial Cooperation"]

[Text] The Sino-U.S. financial market symposium was held in Beijing in mid-November. More than 30 senior personages of Wall Street financial circles and nearly 300 experts from financial circles in China attended the symposium, which discussed the present situation and development of the financial markets in China and the United States and the prospects for economic and financial cooperation between China and the United States. This was the first symposium jointly held by Chinese and American financial circles.

"Attracted by China's Policy of Opening Up"

The symposium was jointly held by the People's Bank of China—China's central bank—and the New York Stock Exchange. The symposium was held from 10 November to 13 November, a total of 4 days. It was learned that the U.S. side began making preparations for the symposium in the second half of last year. Most of the American participants in the symposium were big bosses of the New York Stock Exchange, including former U.S. Secretary of State William P. Rogers and former U.S. Secretary of Commerce Elliot L. Richardson. The United States has rarely sent abroad such a big delegation comprising so many senior personages of its financial circles. Just before the delegation left for China, they expressed that they "were attracted by China's policy of opening up," and that they had a great interest in China's political and economic reforms.

John J. Phelan Jr, head of the U.S. delegation and chairman and senior executive of the New York Stock Exchange, believed that China is now in a period of great excitement which is full of creativeness and bright prospects. The symposium would certainly enhance the mutual understanding between China and the United States and was a great event of historical significance. Former U.S. Secretary of State William P. Rogers, who had visited China in 1978, was surprised by the great changes which had taken place in China over the past few years. He said that China has achieved great successes. Beijing is full of life and construction work can be seen everywhere in the city.

"I Hope That You Will Be Bolder"

The Chinese side attached great importance to the first symposium jointly held by Chinese and American financial circles. Two days after the symposium ended, Chairman Deng Xiaoping met with the friends of American financial circles.

The meeting was held in light and lively atmosphere. At the beginning of the meeting, Deng Xiaoping asked the head of the U.S. delegation: Do you know the aim of the symposium? The aim of the symposium is to "exploit" you, to acquire knowledge from you. Deng's remarks evoked thunderous laughter. After the meeting, a woman member of the U.S. delegation who had visited China 10 years before told Deng Xiaoping that enormous changes had taken place over the past 10 years, but that Deng had not changed, because Deng was still in good health and still talked with great humor.

During the meeting, Deng Xiaoping explained to his guests the current situation of China's political and economic reforms, the short-term and long-term objectives of China, the question of making cadres younger in average age, and so on, in which the American side expressed great interest. Commenting on the Sino-U.S. financial market symposium, Deng Xiaoping said: The symposium has not only provided us with an opportunity to learn from you but has also enabled the U.S. economic and financial circles to fully understand us. For all of you, the symposium is an opportunity to get first-hand information about China and to have a better understanding of U.S. and of China, not only the present China but also China at the end of this century and China in the first half of the 21st century, with your own eyes and ears so that you will be able to strengthen our mutual cooperation.

The head of the U.S. delegation said that American entrepreneurial circles and the American people have deep feelings for the Chinese people and are willing to invest in China, but are still uncertain about certain aspects of China. Referring to questions raised by the U.S. side, Deng Xiaoping said: We welcome American entrepreneurs to come to invest in China to establish both joint ventures and enterprises with exclusive foreign investment. We welcome both types of investment. Since it is a mutual cooperation, you will certainly get the profit you should get. You are worried about our imperfect laws. I think, however, that the problem will gradually be solved. Recently, we have promulgated 22 regulations with regard to this question. The new regulations certainly have defects, but we can improve them and overcome their defects later on. In a word, you should believe that investing in China involves very little risk and that China has great potential to be tapped. At present, it is only the beginning. So, I hope that once you are aware of this situation, you will make more contributions. Foreign investors should not be afraid of suffering losses at the very beginning of their investment. As far as this is concerned, you know the reasons very clearly. However, whether you will be bold in investing in China is still to be seen. I hope that you will become bolder and win a gold medal in this respect. These humorous remarks made by Deng Xiaoping again caused thunderous laughter.

"Stones From Other Hills May Serve To Polish the Jade of This One"

At the symposium, Chen Muhua, State Councillor and president of the People's Bank of China, cited the proverb that "stones from other hills may serve to polish the jade of this one" as a metaphor to say that China wishes to learn and use for reference all the beneficial experiences of international financial circles so as to look for ways to establish China's own financial market. Chen said that one of the aims of China's reform of its financial structure in the future is to open up and establish China's capital market in a planned way, to establish, through the reform of the financial structure, a multi-channel and multitype credit structure which stresses bank credit, combines various credit means, and circulates funds, and to gradually establish multi-level financial centers which rely on central cities and a capital market which is suitable for China. This is a completely new topic for China. China lacks practice in this respect and needs to learn from other countries.

The U.S. delegation also said that although the experience and development of a country is restricted by its own history and culture, it is still good to understand the financial systems of other countries. The U.S. delegation sincerely hoped to share its experiences with Chinese financial circles and to enrich its own knowledge by learning from Chinese experiences.

It was with this spirit of mutual learning and mutual reference that the Chinese and American financial circles introduced their respective experiences at the symposium. The symposium discussed a wide range of questions and topics in a vivid atmosphere. The symposium is said to have been a successful meeting which achieved the expected results.

The New York Stock Exchange is now the biggest stock exchange market in the world. The business volume of the New York Stock Exchange now accounts for 81 percent of the total stock business volume in the United States. In the first 9 months of this year, the stock business volume of the New York Stock Exchange amounted to \$1,000 billion, ranking first in the world. At the symposium, 19 senior personages of the New York Stock Exchange introduced the functions, business scope, and development of the New York Stock Exchange, the modern financial structure, financial means, and financial technology, the government role in the stock exchange, the self-regulating mechanism of the financial market, the reasons and methods for investors to receive education and information concerning the stock exchange, the stock market and its impact on the entire economy, and so on. They also gave their opinions and suggestions on the establishment of a financial market in China.

The personages of the Chinese financial circles listened conscientiously to the U.S. side's introduction of the development and changes, experiences and lessons of the American financial market and raised various kinds of questions for discussion with their American friends. At present, the focus of the reform of China's financial structure is to establish and open up a financial market which is suitable for China. The Chinese side was very interested in the U.S. side's introduction of the present situation and history of the stock market and the situation in the American financial market and believed that all these will be useful to China in its efforts to open up a financial market in China and to perfect China's financial structure.

At the symposium, Liu Hongru, vice president of the People's Bank of China, introduced the present situation and future of the reform of China's financial structure, in which the U.S. side showed great interest. The American friends asked a lot of questions concerning China's financial reform, such as what measures will be taken in China's reform of its economic structure, what measures will be taken by China's central bank to strengthen its functions, what role the American financial institutions can play in raising funds for China, and so on. The Chinese side pointed out that at present, China is still studying and is still in the process of creating the relevant measures to serve next year's reform of its financial structure. The general requirement is to speed up the pace of reform and carry out the reform steadily. As for what role the American financial institutions can play in raising funds for China, the Chinese side thought that the American financial institutions could play a variety of roles, such as the role of a bridge, the role of finding customers for China, the role of passing on information, and the role of passing on knowledge and training qualified personnel. The Chinese side also talked about establishing a financial market and said that China is presently studying the relevant laws. The U.S. side said that American financial and economic circles are willing to strengthen cooperation with their Chinese counterparts. They thought that China was full of confidence in its own economic growth and repayment capability.

The symposium is said to be an important step forward in strengthening mutual understanding and cooperation between the Chinese and the American financial circles. Apart from the discussions held between more than 300 Chinese and American experts at the symposium, members of the U.S. delegation also got in touch with the relevant departments in China so as to get a more clear picture of China. John J. Phelan Jr and some other American experts also gave lectures to the postgraduates at the graduate department of the People's Bank of China and got in touch with the younger generation in China's financial circles, which was of great significance to the future cooperation between Chinese and the American financial circles.

During the symposium, the People's Bank of China and the New York Stock Exchange exchanged views on strengthening their mutual cooperation and also reached an agreement. The main contents of the agreement are to strengthen the educational intercourse and the information exchange between the two sides. Both sides agreed that the strengthening of educational intercourse is of great importance to the continued development of both Chinese and American financial markets. The agreement stipulates that both sides will encourage and promote the exchange of teachers, scholars, and experienced financial experts between the New York Stock Exchange and the People's Bank of China and between the branches and affiliated financial institutions of the two financial organizations. For the purpose of studying the financial market, each side will send postgraduates to the other's country to carry out research and practice. Both sides will also exchange academic and professional materials and financial information as well. The materials to be exchanged between the two sides will include books, publications, theses on special topics, audio and video materials, and other forms of financial information.

The symposium marks the beginning of cooperation between the People's Bank of China and the New York Stock Exchange and is an important step forward taken by the financial circles of both countries. It is expected that along with the development of China's modernization cause, China will further open itself up to the world and provide more cooperation opportunities covering wider areas for foreign economic and financial circles.

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CSO: 4006/159

FINANCE, BANKING

GUIDELINES FOR BANKS IN USE OF FOREIGN CAPITAL

Hong Kong CHING-CHI TAO-PAO [ECONOMIC REPORTER] in Chinese No 32, 18 Aug 86 p 26

[Article by Wu Chuanying [0702 0278 5391], Fujian correspondent: "Bu Ming [0592 2494], Chairman of the Board of the Bank of China, Discusses Basic Guidelines for the Use of Foreign Capital by Banks"]

[Text] When I attended the fourth symposium of the Guangzhou International Finance Institute at Guilin in Guangxi Province toward the end of June, I listened to a speech by Bu Ming, chairman of the Bank of China's board of directors and president of the China International Finance Society, on China's use of foreign capital. Although his speech was only one person's discussion presented at a symposium of a regional academic society, it provided additional reference for the scholarly community on the issue of China's use of foreign capital. I am providing a summary to serve as an introduction for those studying or interested in China's foreign capital use.

Bu Ming first discussed the need for using foreign capital. He said: "China's four modernizations necessitate the importation of advanced technologies, equipment, and necessary materials. However, foreign exchange income from exports and non-trade sources are not enough to fund needed imports. This is why we must use foreign capital." He continued by presenting his view on how much foreign exchange China can presently use, a question that has for a long time been argued over by theorists. He said: China is presently using foreign exchange in the following ways: drawing on deposits abroad, issuing bonds, using bilateral or multilateral loans, leasing, using buyer's credits, commercial credits, engaging in joint ventures, contractual ventures, absorbing direct investments, touzi danbao [2121 6327 2137 0202 investment guarantees?], processing imported materials, engaging in compensation trade, etc. However, regardless of the specific form of foreign capital use, all involve the payment of interest and the need for repayment at a certain future date. You can say that we pay for the privilege of taking out a loan by paying the lender interest that is satisfactory to him. We are also trading off an earlier expenditure of accumulation in exchange for a faster rate of growth in the long run. He, therefore, believes that use of foreign exchange is limited by China's total foreign exchange accumulations. This limit is defined by the amount of foreign exchange income derived from trade and non-trade sources.

At this point, Bu Ming stressed the importance of keeping a balance of payments. He said: "China must maintain a balance in its international payments, at least for the medium and long term. If there should be short term deficits, the balance should be restored over the medium or long term, that is to say, 5 years or more. If we fail to do this, it would indicate that China is unable to repay borrowed foreign capital on time or it would become difficult to use letters of credit when importing. This would hurt our country's reputation and that of our banks in terms of credit-worthiness. Loss of credit-worthiness is the biggest limit to our ability to use foreign capital. Bu Ming also said, "According to international practice, foreign capital use is necessarily limited by a debt service ratio. The cut-off is a debt service ratio of 20 percent. During the Sixth 5-Year Plan, we maintained a debt service ratio of 15 percent. In reality, our debt service ratio was not even as high as 15 percent. It was roughly between 6 and 8 percent. We thus enjoyed excellent credit abroad." Bu Ming said: "The cut-off line at 20 percent is merely a kind of reference for borrowing. In actual practice, the debt service ratio must never be taken as the only consideration. These factors must also be taken into account: What is the country's debt structure? Is the country capable of managing its debts? What are the benefits to be attained by the funds borrowed?" He pointed out, "Foreign capital use is part of our policy of opening up to the outside world and enlivening the domestic economy and should occur within a framework that is both encouraging and restricting. First, it must be made clear that the use of foreign capital is mainly restricted to the importation of advanced technologies and equipment, for technological transformations, to increase production, and enhance export competitiveness, all to increase foreign exchange receipts. Second, it is necessary to carry out, energetically and with great care, the reform of the economic system. In using foreign capital, it is necessary to strictly keep one's promises and act according to law. Third, the reform of finance, banking, and of the foreign capital system have an important bearing on the use of foreign capital, and every effort must be made to coordinate foreign capital use with reforms in these areas. Fourth, consideration must be given to the leadership methods in the various aspects of work involved in the reform at all levels; government administration must be separated from enterprise management, and the enterprises must be allowed to develop to its fullest extent."

On the question of foreign exchange loans and investments by the Bank of China, he first pointed out that the source of the Bank of China's foreign exchange loans and investment capital originates overseas. This is why foreign exchange loans and investments by the Bank of China are wrapped up in the issue of foreign capital use. Bu Ming thus stressed that the basic reasons for investments and foreign exchange loans by the Bank of China should be: (1) Importation of advanced technologies and equipment, strengthening production capacity, and enhancing strength for reconstruction through China's own efforts; (2) Technological transformation and improving export competitiveness; (3) Improving infrastructure and our ability to earn foreign exchange through trade and non-trade activities; (4) In principle, we will not use foreign exchange loans or investments for commercial business operations, for making up fiscal deficits, nor for other fiscal allocations. As far as enterprises are concerned, such funds may be used for: importing advanced

technologies and equipment, improving production capacity, expanding reproduction; improving production conditions, improving product quality and the export competitiveness of products; increasing accumulation, creating more profits and more foreign exchange for the state, promoting the economic development of one's own enterprise and of the country as a whole. We must strive to borrow wisely, use borrowed funds wisely, repay our loans on time, and effect a rapid turnover of foreign exchange funds.

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CSO: 4006/1319

FINANCE, BANKING

CLIMATE BETTER FOR FOREIGN BANKS IN SHENZHEN

OW190941 Beijing XINHUA in English 0718 GMT 19 Nov 86

[Text] Beijing, November 19 (XINHUA)--Thanks to new regulations introduced this year, foreign banks in the Shenzhen special economic zone are finding a better climate for operation.

"Though their business volume has kept growing, foreign bank branches have run into some real problems," Liang Qingrui, deputy general manager of the Shenzhen branch of the People's Bank of China, told XINHUA, adding that the main complaints concern the limits on business scope and heavy taxation.

Liang said, "We have considered these complaints seriously and have taken action to improve the situation."

Liang, who attended the Sino-U.S. symposium on capital markets last week in Beijing, said, "In the position of the Central Bank, my branch has the right to work out ways to improve conditions for foreign branch banks."

New measures taken this year to help foreign banks expand services include allowing Chinese enterprises to redeposit idle foreign currency, loaned by the foreign-based banks, until the funds are needed, while previously foreign banks were only allowed to accept deposits in foreign currency from Sino-foreign joint ventures and enterprises funded solely by foreign investment.

Under the new scheme, banks are allowed to write letters of credit for imports to Chinese enterprises and to deal with external payment and settlement, and in this way, they can also supervise the use of loans.

They are also allowed to receive payment from abroad for exports from Chinese enterprises, but the money must be transferred to the appropriate Chinese bank once it is received.

"We are considering expanding the scope of services for foreign banks in future," Liang disclosed.

Earlier this year, the banks were also given some tax breaks. Now they are exempt from turn-over tax for ten years instead of the previous five, and they are also exempt from the 10 percent withholding tax, provided the interest they pay on loans borrowed from banks outside China is not higher than the average interest rate on international interbank markets.

Since last year, 12 foreign-capital bank branches have been opened in Shenzhen and they are now operating under the new regulations.

FINANCE, BANKING

FUJIAN OPENS MARKET FOR INTERBANK LOANS

OW010442 Beijing XINHUA in English 0203 GMT 1 Dec 86

[Text] Fuzhou, December 1 (XINHUA)—East China's Fujian Province this week opened a monetary market enabling banks to make short-term interbank loans, alleviating problems of capital flow.

The market made a major contribution to new year celebrations in Nanping, providing 20 million yuan (5.4 million dollars) to a local bank that will finance the purchase of special foods for the four-day Spring Festival holiday in late January.

Located in Fuzhou, Fujian's capital, the market's total volume topped 44 million U.S. dollars Wednesday and Thursday, its first two days.

Only banks—which in China are government-owned—were able to participate in the market, organized by the Fujian Industrial and Commercial Bank.

But Luo Fufan, head of the bank, said today organizations and individuals will be able to borrow money on the market in the future. "We expect the market to be open at least every other month," he said.

The market is part of the province's monetary reform, designed to decentralize control of capital. In the past, bank branches had to rely on bank head offices for much of their loan capital, and those agencies were often short of funds.

But with the opening of the monetary market, movement of capital has become much easier, said Luo.

This week, for example, a bank branch in Fujian was able to provide the Spring Festival loan to a Nanping bank for three months, in return for 342,000 yuan (92,340 dollars) in interest.

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CSO: 4020/58

FINANCE, BANKING

HEILONGJIANG VICE GOVERNOR SPEAKS ON FINANCIAL WORK

SK270418 Harbin Heilongjiang Provincial Service in Mandarin 2200 GMT
26 Nov 86

[Text] The provincial conference on the general inspection of taxation, financial affairs, and prices concluded on the afternoon of 26 November. At the conference, Vice Governor Liu Zhongli pointed out that while carrying out the province's general inspection of taxation, financial affairs, and prices, we should grasp two principles: In addition to protecting the interests which should be given to enterprises and units in line with state stipulations, we must also scientifically investigate and handle cases concerning law and discipline violations. This year, our province has scored initial achievements in the general survey. The province as a whole has discovered an illicit sum of 39.81 million yuan through self-inspection and has returned 8.62 million yuan to the treasury.

Vice Governor Li Zhongli stressed: During the general inspection, we must not be too lenient or too strict and must manage things strictly in line with policies. He said: In the course of inspection, we must stop practicing the old method of simply standing on the opposite side of enterprises while conducting supervision and inspection. In exercising our supervisory and inspection duties, we should pay attention to service and enthusiastically invigorate enterprises through our services.

At the end of his speech, Li Zhongli said: We must ensure that inspection, handling, rectification, and correction are being carried out simultaneously. We should establish and improve all rules and regulations, and help enterprises and units study methods to solve their problems and to strengthen their sense of observing financial and economic discipline through inspection.

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CSO: 4006/159

FINANCE, BANKING

KWANGTUNG BANK PLANS MAJOR EXPANSION

HK290628 Hong Kong SOUTH CHINA MORNING POST (BUSINESS POST) in English
29 Nov 86 p 1

[Article by Paul Sham]

[Excerpts] The Kwangtung Provincial Bank, a local unit of the Bank of China, is planning to move its headquarters back to Guangzhou in a bid to become a full-service regions' bank.

Guangzhou mayor Zhu Senlin, who is attending a seminar in Hong Kong on successful foreign investments in China, said the People's Bank of China (PBOC), after receiving a restructuring proposal from the bank, had set up a task force to conduct a feasibility study on the move.

The restructuring of the bank would begin immediately after approval from the PBOC was granted, he said.

He said the bank would play a more positive role in promoting economic activities in the city and in the Pearl River delta once the scheme is implemented.

Rather than simply taking orders for central authorities as it had done in the past, the bank would focus on horizontal development and seek relationships with other financial institutions, he said.

Meanwhile, Lin Bin, vice-chairman of the Guangzhou Commission for Foreign Economic Relations and Trade, said the city planned to raise overseas funds amounting to no less than U.S.\$100 million.

Mr. Lin said the money would be used to finance expansion of the city's infrastructure, particularly for projects in the energy and transportation sectors.

He said the city was considering raising the funds in Hong Kong, Singapore, Japan, France, or the United States.

Mr Lin confirmed reports that Guangzhou would soon open a stock exchange. He said details of the operation would be mapped out by the end of the year and the exchange should be up and running in the first few months of next year.

It will be under the supervision of the PBOC's Guangzhou branch and would probably be managed by the Guangzhou International Trust and Investment Corp, he said, adding that shares in enterprises involving foreign investment might be allowed to trade on the market.

He said a foreign exchange trading centre had recently been set up to assist joint ventures and wholly foreign-owned enterprises to balance their foreign exchange accounts.

The exchange rate would be negotiable between buyers and sellers, and no official rate would be set, he said.

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CSO: 4020/58

FINANCE, BANKING

SHENYANG STATE-OWNED ENTERPRISES ISSUE BONDS

OW201158 Beijing XINHUA in English 0736 GMT 20 Nov 86

[Text] Beijing, November 20 (XINHUA)—State-owned and collective enterprises in Shenyang have issued bonds this year and collected more than 350 million yuan (94.6 million U.S. dollars), today's ECONOMIC DAILY reports.

Shenyang, capital city of northeast China's Liaoning Province, a pioneer in China's financial reform, began allowing enterprises to issue bonds last year.

"The sale of bonds by 452 enterprises has promoted technological upgrading of the businesses themselves and accelerated housing construction in the city," according to the report.

"Of the amount collected by the end of October this year, 220 million yuan (59.5 million U.S. dollars) has been allocated for technological renovation projects approved by the state, and the rest for housing construction," the paper said.

The Shenyang cable plant, a leading cable producer in China, needed to update its equipment, but did not get enough funds from state banks. The plant issued 38 million yuan (10 million U.S. dollars) in bonds to make up the difference necessary to complete the project.

This year, the plant has added 24 million yuan (6.5 million U.S. dollars) in profit and taxes.

"The city has constructed more than 270,000 square meters of housing with funds collected from the bond sales, providing rooms for more than 5,000 city families," the paper said.

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CSO: 4020/58

FINANCE, BANKING

BRIEFS

TIANJIN BANK DEPOSITS--According to statistics compiled by the Tianjin Municipal People's Bank, during the January-September period this year, the bank's deposits in both the urban and rural areas reached more than 3.774 billion yuan, more than a 280 million yuan increase over the figure of the corresponding 1985 period, surpassing the increase level scored in the past and the national average increase level. [Text] [Tianjin TIANJIN RIBAO in Chinese 12 Oct 86 p 1 SK] /12232

GUANGDONG FINANCIAL REVENUE--Since the beginning of this year, financial revenue of Guangdong Province has steadily increased. According to statistics, by the end of October, our province had fulfilled 91.5 percent of the annual quota for financial revenue and revenue had recorded an increase of 7.5 percent over the same period last year. The financial revenue of Zhuhai City, Hainan Administrative Region, and Hainan Li-miao Autonomous Prefecture was less than in the same period last year, but the financial revenue of the other 11 prefectures and cities throughout our province increased. The financial revenue of Foshan City and Huiyang Prefecture recorded the biggest increase. By the end of October, the prefecture and city had overfulfilled their annual quotas for financial revenue. [Summary] [Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 13 Nov 86 HK] /9738

KUNMING MONETARY MARKET OPENS--The Kunming monetary and capital market, the first of its kind in the province which was initiated by the Kunming branch of the Chinese People's Bank, commenced business on 13 November. On the first day, the amount of funds borrowed and lent reached 67.2 million yuan. [Summary] [Kunming Yunnan Provincial Service in Mandarin 1100 GMT 14 Nov 86 HK] /9738

GUANGDONG'S FUNDS CIRCULATION NETWORK--According to NANFANG RIBAO, the funds circulation network for China's agriculture banks was officially set up in Foshan on 27 November. After the establishment of the network, the country's first large funds exchange fair among the people was held. The transaction amount in half day reached some 730 million yuan, of which some 400 million yuan were transacted by the province. The newly established funds circulation network for China's agriculture banks was composed of agriculture banks from 31 provinces, autonomous regions, and cities. The members of the network will mainly engage in short-term funds borrowing and lending and develop lateral ties in funds circulation. They will also set up a funds circulation center to deal with the concentration, stocking, and arrangement of information about funds and to arrange the circulation of funds. At yesterday's funds exchange fair, the listed borrowing and lending amount of funds reached some 1.1 billion yuan. [Text] [Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 28 Nov 86 HK] /9738

GANSU BANKING SYSTEM--Reform in the province's banking system is developing healthily. By the end of October, the province's total bank savings reached some 8.1 billion yuan, fulfilling 153.2 percent of the annual target; and the province's total loans amounted to some 9.2 billion yuan, an increase of 29.5 percent over the corresponding period last year. [Summary] [Lanzhou Gansu Provincial Service in Mandarin 1100 GMT 28 Nov 86 HK] /9738

CSO: 4006/159

SMALL-SCALE ENTERPRISES

BRIEFS

HUBEI TOWNSHIP ENTERPRISES' OUTPUT--The output value of all township enterprises throughout Hubei Province in the first 10 months of this year was some 12 billion yuan, an increase of 24 percent over the same period last year. The township enterprises of prefectures and cities, including Wuhan, Shashi, Xiangfan, (Ezhou), and Jingzhou, developed relatively quickly and their output value exceeded the province's average rate of increase. The number of products of superior quality which have been produced by the township enterprises has reached some 150 this year and is 45 more than last year. The output value of the township enterprises now accounts for over 40 percent of the gross output value of the social economy of the rural areas throughout the province. The output value of the township enterprises of some prefectures and counties has exceeded the gross agricultural output value. [Summary] [Wuhan Hubei Provincial Service in Mandarin 1100 GMT 20 Nov 86 HK] /9738

HEBEI RURAL ENTERPRISE PROFITS--Beijing, November 26 (XINHUA)--The current "sparking plan" to spread practical techniques in the countryside has paid off in increased profits for rural enterprises in Hebei Province, north China, the GUANGMING DAILY reported today. The province has raised 19 million yuan this year for 1,407 practical changes to enterprises owned by rural communities, groups or individuals. This has yielded an estimated 620 million yuan over their original costs, the paper said. One example is a leather factory in Gucheng County, which has imported equipment to develop four new products and earned an additional 200,000 yuan. The national "sparking plan," was launched last year by the State Science and Technology Commission. It encourages research institutes and urban factories to "spark" innovation in industry and agriculture in the countryside. [Text] [Beijing XINHUA in English 0912 GMT 26 Nov 86] /8309

CSO: 4020/58

LABOR

CALL FOR NEW TRADE UNION LAW TO BE FORMULATED

HK181546 Beijing RENMIN RIBAO in Chinese 14 Nov 86 p 2

[Report by Mao Lei (3029 4320): "All-China Federation of Trade Unions Calls for Grasping Firmly the Work of Formulating a New Trade Union Law"]

[Text] The All-China Federation of Trade Unions calls for formulating a new PRC trade union law as soon as possible so that the position of China's trade unions, which are believed to have a total of 80 million members, in state life and its role in social life can be fully guaranteed by law.

In an interview with this reporter recently, Comrade Chen Bingquan, vice president of the All-China Federation of Trade Unions, said: Not long after the founding of the People's Republic, the central people's government successively promulgated three laws in 1950--the marriage law, the trade union law and the agrarian reform law. The trade union law has performed a function in accomplishing democratic reform and building socialism and has given full play to the social and political role of trade unions by unfailingly depending on the working class. Along with profound changes in the social, political, and economic fields of our country over the past 30 years and more, and particularly the further development of the current economic and political reform, the existing trade union law has become increasingly out of step with the situation.

The reporter asked: "The new situation is posing new problems and demands to trade unions. Can you say something about them?"

In reply, Comrade Chen Bingquan said: The delegation of decisionmaking power to enterprises, the application of various forms of the ownership system and different methods of business operation, the reform of the labor and wage systems, and some readjustments in social welfare policy have all touched upon the interests of different quarters and labor relations. All these problems are not only reflected in grass-roots enterprises and institutions but involve the position and role of the trade union in the state political structure. This has proposed new requirements for China's trade unions. Reform of the political structure in our country is related to the question of how to divide functions between the party and the government, and economic organizations and mass organizations. Trade unions are not only a link between the party and the working class, but are mass organizations which establish close ties between the state

administrative organs and the broad masses of the working people. Therefore, defining the position, duties, and rights in our state and social life by means of legislation is of great significance to improving socialist democracy.

Comrade Chen Bingquan concluded: the new trade union law should be drafted after reviewing our experiences, both negative and positive, in the trade union movement over the past 30 years and more, using laws of other countries for reference. The new trade union law should also meet the needs of our current reform of the economic and political structures.

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CSO: 4006/142

LABOR

QINGHAI: COMMENTARY URGES LABOR SAFETY AT TOWNSHIP ENTERPRISES

HK190410 Xining Qinghai Provincial Service in Mandarin 2330 GMT 17 Nov 86

["Short" station commentary: "Take Effective Measures to Enhance the Township Enterprises' Level of Safety in Production"]

[Text] Over the past few years, township enterprises of our province have developed very quickly and their output value and output doubled and redoubled. By the end of last year, the number of township enterprises in the whole province had reached some 31,600 and their output value some 317 million yuan. The rapid development of the township enterprises has created favorable conditions for enlivening the rural economy of our province and for helping peasants get pulled out of poverty and get rich.

However, we must see that in the circumstances of insufficient capital and with a lack of technicians in specific fields, many township enterprises have hurriedly started. The premises of some enterprises are poor and their equipment outmoded. Their workers have generally lacked knowledge of safety in production. In particular, the production safety conditions of some mining enterprises run by some peasants themselves are still poorer. Some of them have even lacked the necessary production safety facilities.

The fourth quarter has now approached. To fulfill and overfulfill the production tasks for the whole year, all enterprises have accelerated their progress in production. In view of this, we suggest that the departments in charge of the township enterprises at all places and production safety supervisory departments must take measures as soon as possible to carry out a complete and thorough inspection and investigation of the production safety situation of all township enterprises, particularly township mining enterprises. In the course of inspection and investigation, they must help these enterprises work out the necessary plans and measures for safety in production, establish all regulations and systems and put them on a sound basis, and at the same time, provide them with technological guidance and service for these systems and safety equipment for production. They must really create an environment of labor safety.

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CSO: 4006/159

LABOR

SHANGHAI REPORTS SURVEY ON MISUSE OF TALENTED PEOPLE

HK030307 Hong Kong ZHONGGUO XINWEN SHE in Chinese 1249 GMT 1 Dec 86

[Report: "Serious Misuse of Talented People in Shanghai"—ZHONGGUO XINWEN SHE headline]

[Text] Shanghai, 1 Dec (ZHONGGUO XINWEN SHE)—Today, the Shanghai Municipal Personnel Bureau issued the results of the first sample survey on the use of professional and technical personnel: about one-fifth of the over 553,000 various professional and technical personnel in the whole city are now not working with what they learned and in what they are good at and one-fourth of them do not have a sufficient workload or have nothing to do.

Starting in March of this year, the Shanghai Municipal Personnel Bureau employed over 100 surveyors to conduct individual inquiries of 400 units and 10,048 professional and technical personnel concerning 127 survey items and over 580 survey targets and acquired some relatively accurate statistics.

At present, as far as the whole country is concerned, Shanghai still enjoys an advantage in the quantity of talented people but has more problems in the use of these people. Notwithstanding that a number of intellectuals have been given administrative leading posts over the last few years, of the 1,451 professional and technical personnel involved in the sample survey, about half want to be dismissed and return to their original technical posts.

The flow of talented people is also a big problem. Most of these units tend to regard the scientific and technological personnel as their own "private property" and stop them from "seeking employment elsewhere." It is estimated according to the survey results that over 60 percent of the professional and technical personnel in Shanghai have never been transferred since they were employed. There are more restrictions on holding part-time jobs or resignation for the professional and technical personnel. Some units not only absolutely do not allow the scientific and technological personnel to hold part-time jobs but also consider holding part-time jobs as a kind of unhealthy tendency and investigate and take strong measures against personnel who take part-time jobs.

While releasing this news, officials of the Shanghai Municipal Personnel Bureau expresses: In the process of enforcing the policy on intellectuals, Shanghai can resolve better the issues left over by history. However, on the issue of taking care and making full use of the talented people, great efforts need to be made.

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CS0: 4006/159

LABOR

SHANGHAI: INDUSTRIES FACE SKILLED WORKERS SHORTAGE

OWO10802 Beijing XINHUA in English 0705 GMT 1 Dec 86

[Text] Beijing, December 1 (XINHUA)--Shanghai's government industries face a shortage of skilled workers produced by their own short-sighted personnel policies, the GUANGMING DAILY reported today.

In addition to hampering normal operations, the shortage is "making it difficult to improve the quality of products and to develop new ones," the Beijing-based paper said. "And sophisticated equipment is not being maintained as it should be."

In response, the Shanghai city government two years ago began running training classes to teach workers skills in crucial areas. The classes have produced 2,600 graduates, said the paper.

But overall, only 2 percent of the manual workers in Shanghai's shipbuilding, energy, and machinery industries are skilled, it said, citing a recent survey.

"And they are an average of 55 years old," the paper said. Normal retirement age for manual workers in China is 55 for women and 60 for men.

The paper blamed the problem on the failure of enterprises to encourage workers to develop their skills. For at least 20 years, China has had no system for classifying manual workers according to skill levels.

"Too many enterprises fail to see the importance of skilled workers," it said. "Not only are there too few training programs, but most workers are kept on the same machine for life, giving them no chance to become more versatile."

The paper said only 20 percent of the manual workers in the surveyed industries have technical school educations or the equivalent.

"Far too few can work with sophisticated technology or figure out how to run new equipment," it said.

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CSO: 4020/58

LABOR

TIANJIN MEETING ON LABOR SYSTEM REFORM ENDS

SK020257 Tianjin City Service in Mandarin 0030 GMT 1 Dec 86

[Excerpts] A 3-day meeting on reform of the labor system concluded yesterday. The meeting called for renewing concepts, further strengthening our understanding of the great significance in reforming the labor system, and enabling the labor reform system to be soundly developed so as to cope with the needs of the entire economic structural reform.

Vice Mayor Li Changxing attended and addressed yesterday's meeting. He said: The reform of the labor system is one of the important components of the entire economic structural reform which will inevitably lead to a change in the people's concepts. The core of the labor system reform is to fully mobilize the socialist enthusiasm and creativity of the workers and the masses. It is conducive to improving the quality of workers and to developing the social productive forces.

Comrade Li Changxing said: A good job in the reform of the labor system has a vital bearing on the smooth progress of the entire economic structural reform. Therefore, leaders at all levels should attach great importance to this work and include it on their agendas. It is necessary to implement the leadership responsibility system. In addition, all districts, counties and bureaus should actively support the work of the labor departments, help solve problems concerning labor disputes and arbitration, labor insurance, and labor service companies' classification of accounts, and create work conditions necessary for the reform of the labor system.

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CSO: 4006/159

LABOR

TIANJIN SEAMEN SERVE ON FOREIGN-REGISTERED SHIPS

OW290216 Beijing XINHUA in English 0207 GMT 29 Nov 86

[Text] Tianjin, November 29 (XINHUA)—Sixteen Chinese seamen left Tianjin recently to work on board the Savona Star, a Hong Kong registered freighter.

In 1980, Tianjin began to dispatch seamen to foreign shipping companies providing a new form of harbor service. Officials hope the service will expand the city's external economic relations.

So far the city has hired out 1,041 seamen to 14 shipping companies from Federal Germany, Greece, Japan, the United States and Hong Kong. The contracts are worth nine million U.S. dollars, according to an official from a local company for international economic and technical cooperation.

As a major open port in North China, Tianjin has nearly 1,000 seamen. "Observing contracts and guaranteeing service quality is the important reason for our success," the official said.

Tianjin seamen now work onboard foreign and Hong Kong freighters, oil tankers, refrigerating vessels, and multi-function carriers. Some ships are manned entirely by seamen from Tianjin.

The Tianjin company enhanced relations with other port cities to promote its business. The company has little more than 100 seamen and lacks senior crew members. It has received personnel support from Shanghai, Xiamen and Qingdao shipping companies.

Over the past few years, Tianjin has accelerated its training program. Sailors are required to master a sound knowledge of marine work and have a basic grasp of English.

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CSO: 4020/58

LABOR

BRIEFS

XIAN LABOR MARKET BOOM—Xian, December 1 (XINHUA)—Xian, capital of northwest China's Shaanxi Province, is witnessing a labor market boom. According to an official in charge of the city's labor and personnel bureau, over 1,500 state-owned enterprises have recently recruited 6,000 contract workers, most of whom have received two or three years' vocational training. Since its opening in 1984, the labor market has developed into a multi-function one, including the exchange of skilled workers and recruitment of contract workers. In the past two years, the market has provided enterprises with 46,200 workers and helped 1,500 workers find new jobs. [Text] [Beijing XINHUA in English 1632 GMT 1 Dec 86] /8309

CSO: 4020/58

POPULATION

GUIZHOU MEETING URGES POPULATION CONTROL

HK190133 Guiyang Guizhou Provincial Service in Mandarin 2300 GMT 18 Nov 86

[Text] The Provincial Party Committee and government held a provincewide telephone conference on family planning on the evening of 18 November, to report on the situation in this work during the January-September period. The meeting called on the province to do a good job in current family planning work and strive to control population growth.

Ding Tingmo, deputy secretary of the Provincial Party Committee, and Vice Governor Zhang Yuqin spoke at the meeting.

The meeting pointed out that it is essential to fully understand the grave population situation facing the province. The leaders at all levels must get a thoroughly good grasp of family planning work in light of the province's low rates of practicing birth control and sterilization and high rate of births outside the allowed quotas. It is essential to mobilize the whole of society to be concerned for and support family planning work and to regard it as an important aspect of building spiritual civilization. The governments at all levels must strictly implement the family planning policies. They must not deviate from the policies and go their own way.

We must do a good job in implementing contraceptive measures, and especially sterilization measures. It is particularly important to improve work in backward areas, shift the focus of work to the rural areas, and work out responsibility systems for each person in backward areas. A deadline must be set for solving the problem of births exceeding the allowed quotas.

The meeting stressed that it is essential to step up the building of grassroots networks. A good grasp must be got of applying measures to terminate pregnancies that exceed the allowed quota. The public health departments must provide all-out assistance to take effective measures in solving the problem of births exceeding the allowed quota. We must strive to fulfill this year's family planning task and control population growth.

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CSO: 4006/159

POPULATION

SHAANXI MEETING STRESSES FAMILY PLANNING PROPAGANDA

HK210205 Xian Shaanxi Provincial Service in Mandarin 0030 GMT 21 Nov 86

[Excerpts] The Provincial Party Committee and government held a province-wide telephone conference yesterday evening on family planning propaganda work. Leading comrades of Sanyuan and Yang counties and Weinan Prefecture introduced their experiences in this work. Mou Lingsheng, deputy secretary of the Provincial Party Committee, made a speech.

Mou Lingsheng pointed out that three major tasks should be grasped in the next stage of the propaganda drive:

1. With the resolution of the 6th Plenary Session of the 12th CPC Central Committee as the motive force, we should bring family planning onto the track of building the two socialist civilizations.
2. The propaganda drive must be integrated with rural party rectification. Party members must play their leading role and lead the masses in practicing family planning.
3. The propaganda drive must yield practical results. We must continue to vigorously advocate that a couple have only one child and strictly ban the birth of a second or more children not covered by the plan.

Mou Lingsheng stressed that all localities must further strengthen leadership and ensure that this propaganda drive is a success.

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CSO: 4006/159

POPULATION

SHANXI TO BOOST FAMILY PLANNING PROPAGANDA

HK260241 Taiyuan Shanxi Provincial Service in Mandarin 2300 GMT 25 Nov 86

[Excerpts] The provincial government convened a telephone conference on 25 November, which decided to conduct propaganda and education in family planning, together with technical services, during the slack agricultural season this winter and next spring. (Jiao Yibin), chairman of the provincial family planning commission, outlined specific arrangements for this work.

Vice Governor Feng Zhimao presided and spoke. He pointed out that during the seventh 5-year plan period, over 300,000 young couples in Shanxi will be getting married each year. If each young couple has 1 child, this will mean over 300,000 births a year. The number of births will be still more with the addition of the women already married and of child-bearing age, those who are legally having a second child, and those who are having additional children not covered by the plans.

The state has allocated Shanxi a population figure of 30 million by the end of the century. This means that our population can only increase by 3.74 million between now and the year 2000, an average of 250,000 a year. If we fail to strictly control population growth, we are bound to far exceed the population target allocated the province by the state. This will have a serious impact on the building of the province's energy, heavy, and chemical industry bases, achieving quadruplication, and attaining a comfortably well-off living standard.

The party and government leaders and the departments at all levels must therefore clearly understand the serious population situation facing the province and firmly embrace the concept of long-term perseverance in family planning. We must truly assign family planning work an important place on our agenda.

We must formulate a dual contract responsibility system for economic and population targets and ensure that material production and population plans are formulated, conveyed downwards, and checked on together. Population growth must dovetail with material production.

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CSO: 4006/159

POPULATION

BRIEFS

UN GROUP VISITS NINGXIA--On the evening of 8 November, Ma Yingliang and Yang Huiyun, vice chairmen of the regional government, met with Mr Lakuien [2139 1145 1869] and Madam Chiang Chen-ni [5592 3791 1200] of the study group of the UN fund for population activities. At the meeting, the hosts and the guests held friendly and cordial talks. Mr Lakuien and his group arrived in Yinchuan by train on the afternoon of 8 November. During their visit to Yinchuan, they will hold talks with experts in the public health and educational fields in Ningxia and will visit Wuzhong and some other places. After the meeting, Vice Chairman Ma Yingliang gave a dinner in honor of Mr Lakuien and members of his group. [Report: "Autonomous Regional Leaders Meet with a Study Group from the UN Fund for Population Activities"] [Text] [Yinchuan NINGXIA RIBAO in Chinese 9 Nov 86 p 1] /12232

CSO: 4006/142

MINERAL RESOURCES

BRIEFS

XINJIANG NONFERROUS METALS--Xinjiang has made progress in discovering nonferrous metal deposits. This year, it has discovered mineral deposits, several 10 meters thick, in the north of Junggar and in the (Beicheng) mineral belt on the south of the Altay Shan; tin ore on the east of Junggar; and copper and molybdenum ores in Hami Prefecture. It has discovered tungsten ore in the [words indistinct] of granite at the Altay Shan for the first time this year. In (Kalatongke) area, this year, the region has continued to expand the scope in which it is looking for mineral deposits so that the copper reserve is markedly more than the original reserve. The region has discovered new copper deposits on the southwest of (Kalatongke). [Summary] [Urumqi Xinjiang Regional Service in Mandarin 1300 GMT 21 Nov 86 HK] /12232

HAINAN'S SAPPHIRE RESERVES--Guangzhou, 17 Nov (ZHONGGUO XINWEN SHE)--A geological prospecting survey has shown that China's largest sapphire mine has been found in Penglai of Wenchang County, Hainan Island, and its reserves ranks first in the country. Sources in the Bureau of Geology and Mineral Resources of Hainan Island said: Of late, a ruby mine has also been found in the same mining area, and its workable reserves come to 5,600 grams. This is China's first ruby mine. Departments of geology and mineral resources of Hainan Island started making a large-scale reconnaissance survey of precious stones in Penglai in 1982, discovering an eluvial gem placer and a diluvial gem placer. They also engaged in research and evaluation of gem deposits in Penglai. Sources of the Bureau of Geology and Mineral Resources of Hainan Island also said that they are now evaluating two similar mines in the Penglai mining area, whose prospects are believed to be very good. [Text] [Hong Kong ZHONGGUO XINWEN SHE in Chinese 0913 GMT 17 Nov 86 HK] /9738

SHANDONG GOLD PRODUCTION--As of early November, all gold enterprises in Shandong Province had overfulfilled their annual production plan. Gold output increased by 9.5 percent over the same period of last year, of which the gold output produced by local gold mines and the masses showed an increase of 20.4 percent. [Summary] [Jinan Shandong Provincial Service in Mandarin 2300 GMT 27 Nov 86 SK] /9738

GUANGXI SILVER RESERVES--Beijing, December 1 (XINHUA)--Geologists have discovered a "considerable reserve" of silver in the country's major tin-producing base of Dachang, in the northwest part of the Guangxi Zhuang Autonomous Region, according to the November 27 issue of the GUANGXI DAILY which reached Beijing today. The Dachang mining zone, about 300 km northwest of the regional capital of Nanning, has the biggest reserve of tin in China. The region's nonferrous metal exploration company found that, in addition to more reserves of tin, antimony, lead and zinc. Dachang also has rich silver resources, the paper said. Gold deposits have also been found in the area, it said. [Text] [Beijing XINHUA in English 0221 GMT 1 Dec 86] /8309

PRC MEDIA ON FOREIGN ECONOMIES

XINHUA VIEWS 'SERVICE COOPERATIVES' IN USSR

OW301709 Beijing XINHUA in English 1509 GMT 30 Nov 36

["Cooperatives Supplement State-run Services in Soviet Union"--XINHUA headline]

[Text] Moscow, November 30 (XINHUA)—Workers in Kursk region of the Soviet Union's Russian Republic are working in their spare time at everything from home renovations to professional photography, filling the chronic gap between consumer demand and state-run supply.

Workers in Kursk began forming themselves into "service cooperatives" about six months ago, and a steadily-growing service network has emerged.

The weak service industry has long been a source of complaint for Soviet consumers. Soviet newspapers have recently featured letters from people unhappy about the poor quality of state-run services or the long waiting time involved in getting services performed.

Earlier this month, the Soviet parliament approved an "individual labor law" that will officially sanction such individual enterprise. Under the new law, which takes effect next May, individuals or families will be able to apply for licenses to provide local services not adequately supplied by the state.

The Kursk cooperatives offer more than 30 services that are in short supply, including home renovation, construction of holiday cottages, photography, tutoring, typewriting and privately-run parking lots.

Those employed through the co-ops work in their spare time, and are eligible for loans from the state as well as being provided with building materials, small machinery and transport facilities.

In an effort to encourage the service co-ops, the Kursk regional authorities have given them tax-free status for two years. Instead of paying income tax, workers contribute part of their wages to a pool of funds used by the cooperative to cover administrative costs.

Cooperative members have managed their finances carefully from the outset, accepting only 3,500 roubles (about 5,300 U.S. dollars) of the 40,000 roubles available in loans from the state banks. Co-op members have also renovated old workshops they have rented and installed machinery.

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CSO: 4020/57

HUNGARY'S CURRENT REVISION OF ECONOMIC PROGRAM EXAMINED

Beijing JINJIXUE DONGTAI [DEVELOPMENTS IN ECONOMICS] in Chinese No 6, 5 Jun 86
pp 42-45

[Article by Liu Weimin [0491 3634 3046]: "This Year Hungary Revises its Economic Adjustment Program"]

[Text] In 1986, the Hungarian Government, in order to adapt to the needs of economic development and smoothly fulfill 1986 national economic development plans, made appropriate revisions in the original economic adjustment program.

Revision of the Adjustment Program

I. Readjustment of tax rates: Beginning on 1 January 1986, all profits taxes turned over by enterprises to the state will increase by 5 percent; the tax rate will be raised from 35 percent to 40 percent. All units paying income taxes will have their income-tax rate raised from 35 percent to 38 percent. At the same time, beginning on 1 July 1986, the accumulation tax will be lowered from 18 percent to 15 percent. Investment projects used to increase exports and key investment projects under state plans will all be subject to an accumulation tax of 8 percent as of 1 January.

In order to limit wage increases, the state has stipulated that all units falling under central wage control will have a maximum tax-exempt wage increase of only 4 percent (it was 5.5 percent in 1985); when there is a progressive tax on wages paid, the maximum increase will be only 1 percent. Beginning in 1986, the wage tax and property tax preferences previously enjoyed by some enterprises and sectors will also be gradually eliminated. However, in such areas as commercial services for citizens and construction of staff and worker housing by enterprises, the state will continue to offer certain preferences in profits taxes, property taxes and wage taxes.

II. Revision of personal income tax provisions: In order to limit excessively rapid increases in personal income and avoid and overcome problems created by disparities in personal income, beginning on 1 January 1986 the state issued new provisions regarding individual income taxes paid by citizens. The principle behind the new provisions is that the income-tax rate for low-income individuals is lowered, and the rate for high-income individuals is raised.

Specifically, the tax rate for individuals having an annual income below 200,000 forints is lowered to 2-5 percent. The rate for individuals with incomes over 200,000 forints is raised to 3-8 percent. The higher the income, the higher the rate. The tax rate for individuals with incomes over 1 million forints is raised from 63.6 percent to 65.9 percent. Thus of the nation's 1.2 million taxpayers, 60,000 will pay significantly higher taxes. According to Hungarian estimates, readjustment of the personal income tax alone will enable the state to bring in an extra 12 to 13 billion forints each year.

III. Increased agricultural investments and subsidies and higher purchase prices for agricultural and animal products: In order to speed agricultural growth, particularly the development of animal husbandry, increase exports of agricultural and animal products, and improve the foreign trade balance, in 1986 the Hungarian Government increased investments in agriculture by 5 to 10 percent; subsidies for agricultural production units will also be increased. In 1986, as agricultural enterprises establish cattle ranches, state subsidies are being raised to the equivalent of 50 percent of investment cost; for the development of poultry raising, state subsidies are 30 percent.

Under the state's provisions, purchase prices for farm products are raised an average of 1 percent. The purchase price per kilo for hogs sold by large enterprises is raised by 1.5 forints. The weight per hog is also increased from the previous 95 to 120 kilos to a maximum weight of 125 kilos. The price per pound of pork is raised by 3.1 forints. To speed up development of poultry raising, the state has decided to implement seasonal bonuses when purchasing poultry. As of November 1985, agricultural enterprises selling poultry receive a bonus of 2 forints per kilo. From November 1985 to March 1986, agricultural production units selling poultry after fulfilling their contractually stipulated assignments receive a bonus of 50 extra forints per kilo. Beginning on 1 January 1986, the state has offered a price subsidy of 90 forints for every liter of milk sold by agricultural enterprises. In order to promote the development of corn production, starting in 1986 the state will offer a tax preference of 800 forints for every hectare of corn harvested by agricultural enterprises.

In order to further mobilize the enthusiasm of small producers and improve the quality of pork, small producers buying piglets sold by state industrial meat enterprises between November 1985 and March 1986 were able to receive certain price subsidies. The purchase price per kilo for fattened hogs weighing 95 to 125 kilos sold by small producers is raised from 35.5 forints to 39.3 forints.

Reasons for Revision of the Adjustment Program

In 1985, implementation of the Hungarian national economic development plan was not going well; none of the principal plan targets had been met. National income had basically not increased, and the growth in industrial production was far behind the plan's stipulations; production in the construction industry lagged behind 1984. In agricultural production, grain output basically approached 1984 levels, but stock production declined, with the number of animals in inventory declining everywhere. Exports increased only slightly, whereas imports greatly exceeded the original plans. For the reason the foreign-trade rate of exchange dropped, and the goal of improving the balance

of trade was not realized. The number of factors unfavorable to economic growth increased.

In view of the country's actual conditions, in 1986 Hungary will continue to implement its economic retrenchment policies; the economic growth targets set by the government are quite low. National income plans are increasing from 2.3 to 2.7 percent; domestic utilization is increasing from 0.2 to 1 percent; industrial production is increasing from 2.5 to 2.5 percent; personal consumption is increasing 1 percent; and per capita income is increasing from 1 percent to 1.5 percent. The concerned authorities are emphasizing that the basic task for 1986 is still to safeguard and improve the economy's balance and maintenance, and to raise living standards, limit inflation and accelerate economic growth according to the national economy's income-generating capacity. However, in the light of present conditions, it will still be difficult to fulfill the 1986 plan. The government has stipulated that 1986 budget income must increase by at least 9 percent, but expenditures will increase by 10 percent. A shortage of funds is thus a salient problem in the economy. To solve this problem, one approach is to increase borrowing from abroad, but this runs counter to the goal of further reducing foreign borrowing during Hungary's Seventh 5-Year Plan and may also generate new problems. The Hungarian leadership believes this is unacceptable. Another approach is proper handling of domestic economic work. Hungary is therefore setting stricter requirements for enterprises, forcing them to raise the efficiency of their management and administration and to give priority to economizing on funds, energy, raw materials, and labor. At the same time, the enterprises are being required to make a greater contribution to restoring balance to the economy, and to increase the profits they turn over to the state. Revision of the adjustment program, an important component of which is raising the tax rate on enterprise profits, thus serves this goal.

Enterprise Reaction

After the 1986 adjustment program was announced, there was a strong reaction from enterprises. Of course agricultural production enterprises warmly welcomed the higher purchase prices for agricultural and animal products, and the increase in agricultural investments and subsidies. But there was universal dissatisfaction regarding the stipulated increase in their profits tax.

The enterprises believe that the new adjustment program will add to their burden, and there will be fewer possibilities for enterprise growth. The increased tax burden means enterprise development funds are inadequate and makes it difficult to improve backward technology, making it impossible to divide profits at the end of the year and to fulfill assignments in the area of welfare policy. Enterprise leaders state that the goal of reform should be to expand enterprise autonomy, and the adjustment program should create the necessary conditions for the enterprises to exercise that autonomy. But the 1986 adjustment program does not conform to this principle. Some well-run enterprises are resentful: the new adjustment program does not reflect any differences on the question of tax revenue, which does nothing to mobilize the enthusiasm of enterprises and staff and workers. Poorly run, losing enterprises have even more grievances. Some enterprise leaders have gone so far as to state publicly that enterprises have their own way to deal with the situation in order to deal with the tax increase, and that is to raise the

prices of their products. But they warn that the result of this approach will necessarily be to increase the burden on consumers and may have an inflationary effect.

In October of last year, the Hungarian Government approved the new provisions for the 1986 adjustment program, and in November these were circulated among the enterprises. Enterprises also had complaints about this approach. They stated that the adjustment program keeps changing, and the new provisions being announced so late created major problems for the enterprises in setting next year's plans. The enterprises are always in a passive position, and in fact they do not set plans according to their own development strategies but rather according to the requirements of the adjustment program. To a very great extent the adjustment program has replaced the effects of market relationships. Market mechanisms can only exert an auxiliary effect during the process of plan implementation. The enterprises are, therefore, demanding that an effective, long-term adjustment program be set.

And officials in the government's Ministry of Finance do not deny that the 1986 adjustment program is even more stringent. They believe that raising the profits tax rate is certainly not something that will make people happy, and it is understandable that well-run enterprises should have complaints about it. Nonetheless, the government must take this approach. The Hungarian Politburo member in charge of economic affairs Serenc Havasi states in an article: "Viewed in terms of the interests of the enterprises, the excessive proportion of state tax revenue in enterprise income has had unfavorable consequences."

Government officials assert that one important task for 1986 is to improve the financial balance and reduce deficits. But the state has few possibilities for reducing budget expenditures, and so it can only proceed by increasing its revenue. Thus, it is essential that the profits turned over by enterprises to the state is increased. Even though the profits tax was raised, the planned deficit for the 1986 budget will still be 23 billion forints. They believe that despite their difficulties the enterprises still have exploitable potential. The tax revenue system is incomplete; certain unreasonable provisions can be gradually adjusted and solved. But the enterprises should start by taking into account the state's interests and adopt effective measures to ensure completion of the 1986 national economic plan.

Some Hungarian economists point out that the 1986 revised adjustment program reflects the continued presence of difficult-to-resolve conflicts in the Hungarian economy: 1. In order to maintain a balance in national finance and limit or lower inflation, the state's budget revenue must be increased. The present situation is such that only by increasing enterprise taxation can state revenues be increased, but excessive taxation may also limit enterprise growth and lower their income-generating capacity. 2. An important aspect of the reform is that it forces poorly run, losing enterprises to improve their management and increase their operating results; when necessary, these enterprises can be closed down. But in fact, at least for the present, there is no way to do this. This is due, on the one hand, to political reasons; on the other, even though some enterprises are always losing, in terms of market supply and exports their products are indispensable. Therefore, the state must still keep these enterprises going, and the necessary funds can only be

gotten from the well-run enterprises. This is an old problem in the Hungarian economy. Even though the Hungarian leadership has repeatedly emphasized the need to solve this problem, to date no practical, feasible approach has been found. That is why in its economic management the state is regularly obligated to adopt measures that contradict the basic principles of reform.

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PRC MEDIA ON FOREIGN ECONOMIES

BRIEFS

HUNGARIAN ECONOMY--Budapest, November 28 (XINHUA)--Hungary, a country poor in industrial resources, has earned 2.2 billion forints (about 46.8 million U.S. dollars) in the past five years through the sale of licenses, according to a report in a local newspaper. The licenses, which give foreign firms the right to produce goods covered by Hungarian patents, have this year already earned Hungary more than 800 million forints (17 million dollars). One of Hungary's main economic goals is to step up exports of technology as well as technology-intensive products. The report said, of the sold licenses, 85 percent have gone to the West. West European countries and Japan are especially interested in cultural products such as books and films and Hungarian scientific materials. Most in demand are licenses for pharmaceuticals, which last year were worth 240 million forints (5.1 million dollars). Those for computer software placed second. [Text] [Beijing XINHUA in English 1516 GMT 28 Nov 86] /8309

HUNGARIAN AGRICULTURAL BANK PLANS--Budapest, November 28 (XINHUA)--In an effort to improve monetary systems and finance farm production, Hungary will open an agricultural bank to gather capital from farming cooperatives throughout the country. The bank appears to be the first of its kind in this country. Speaking to reporters today, Istvan Huszar, section chief of the Hungarian national council of cooperatives said the bank will have a start-up capital of about one billion forints (about 22.7 million U.S. dollars), collected from 1,200 cooperatives participating as share-holders. The bank will assume sole responsibility for its profits and losses. Huszar said that the bank, which is to open January 1, 1987, will be an integral part of a modernized Hungarian banking system and serve to vitalize rural monetary markets. Representatives from the participating cooperatives will hold a session next month to draft regulations and elect a president and managing committee. [Text] [Beijing XINHUA in English 0251 GMT 29 Nov 86] /8309

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